The Quest to Generate 6% Distribution rate

How adding alternative assets can help deliver added income, without added risk

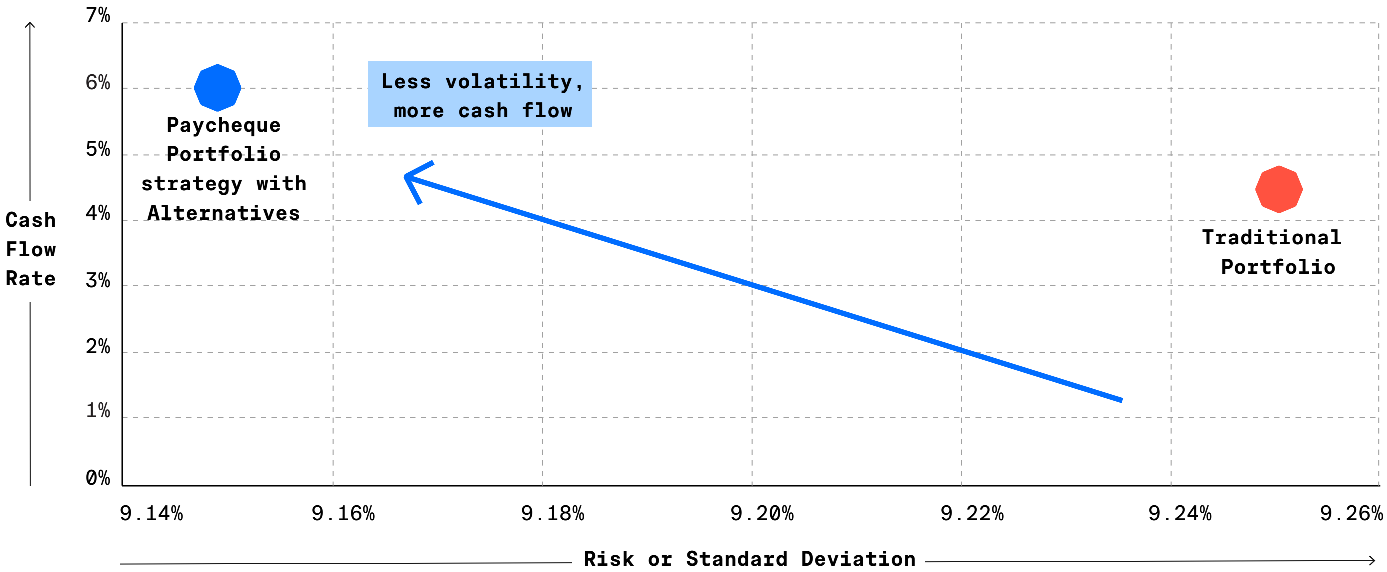
David De Pastena
CFA, CMT, CAIA, CIM, FCSI
Head of Portfolio Insights, Dynamic

With rising health care costs, persistent inflation and Canadians living longer in retirement, there's a growing need for retirees to generate more retirement income from their portfolios. An example would be a $1 million retirement portfolio made up of traditional assets (i.e., stocks, bonds and cash) aims to generate no more than a 4.5% rate, or $3,750 per month.

But what if, for example, your clients need more income, say $5,000 a month, which would require 6% yield on a $1 million portfolio? Generating additional income using only traditional asset classes essentially leaves one with two options: either take on more risk, perhaps adding high-yield bonds or risky high-dividend stocks to the portfolio, which puts capital at risk; or simply increase the monthly withdrawal rate, which isn't a viable long-term option, as this diminishes the portfolio and its ability to generate income.

But what if there was a way to generate more income without taking on additional risk? Thankfully, there is. Using alternative assets, specifically liquid alternatives, we can potentially deliver an income rate of 6%, generating an additional $15,000 per year on a $1 million portfolio – without taking on added risk.

Cash Flow Rate vs. Risk



For illustrative purposes only.
Source: Morningstar December 2025. All portfolios are constructed using Dynamic funds (Series F) to represent a balanced high-income allocation.
All portfolios are before commissions and advisor fees. Trailing Twelve Months (TTM) 12-month yields and 5-year portfolio standard deviation used for risk.
Distributions may consist of net income, dividends, net realized capital gains, and/or return of capital. Distributions are not guaranteed, and investors should not confuse a fund's distribution yield with its performance or rate of return.

When Yield Matters: Consider the Alternatives

Once the exclusive domain of institutional and high-net-worth investors, alternative investments have become increasingly accessible to investors across Canada as they can be used to diversify portfolios and access new investment strategies.

Major pension funds in Canada and the United States, such as the Canada Pension Plan (CPP) and Yale University[1], have successfully used alternative assets for decades to manage risk and diversify income streams.

A Closer Look at Liquid Alternatives

While there is a broad range of alternative assets, including less liquid investments like private equity and hedge funds, the focus of this article is specifically on liquid alternatives, which combine the liquidity and transparency of mutual funds with much of the investment flexibility of hedge funds.

Because they rely on alternative sources of returns, liquid alternatives can offer investors the potential for diversification, decreased volatility, and attractive risk-adjusted returns – independent of traditional stock and bond markets. Key alternative strategies that can deliver diversified retirement income include: options, long-short credit, and real estate investment trusts (REITS).

Unlocking More Income: Five Key Criteria for Alternative Assets

When incorporating alternative assets into a portfolio, advisors should focus on these five essential criteria:

- **Track Record: The Proof is in Performance.** Only employ alternative funds with a verifiable track record, managed by experienced portfolio managers skilled in using alternative strategies across various market cycles.
- **Sustainable Yield: Can It Keep Paying?** Does the alternative fund boast a clear and consistent history of delivering sustainable cash flow for the foreseeable future?
- **Liquidity: How Quickly Can You Cash Out?** Ensure the assets can be redeemed promptly if a capital withdrawal is necessary.
- **Diversified Income Streams: Is Your Income Truly Diverse?** Opt for assets offering diversified income streams with low correlation to the existing portfolio, thereby enhancing overall diversification potential.
- **Lower Capital Drawdowns: How Does It Weather the Storm?** Select alternative assets that behave differently from the rest of the portfolio in both rising and falling markets, helping to mitigate overall portfolio risk.

[1] Yale Endowment Fund 2023 Annual Report, CAIA

Upgrading Your Portfolio's Yield: Before and After

Sticking to traditional asset classes limits investors to the modest yields of bonds and dividend-paying stocks, as seen in Figure 1. For those seeking higher returns, incorporating alternative asset classes – such as options, real estate, long-short, absolute return and structured credit – may be a game-changer.

As seen in Figure 2, integrating alternative income-producing assets into a traditional portfolio aims to enhance income and potentially reduce volatility. This strategy is ideal for investors aiming for income rates above 4%.

Figure 1

Traditional Paycheque Portfolio approach

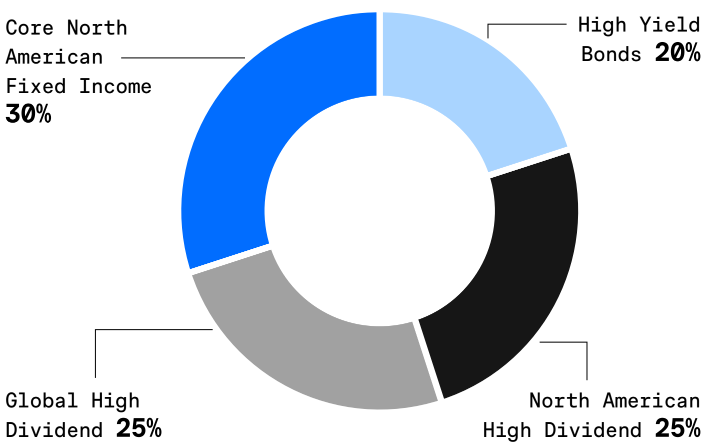
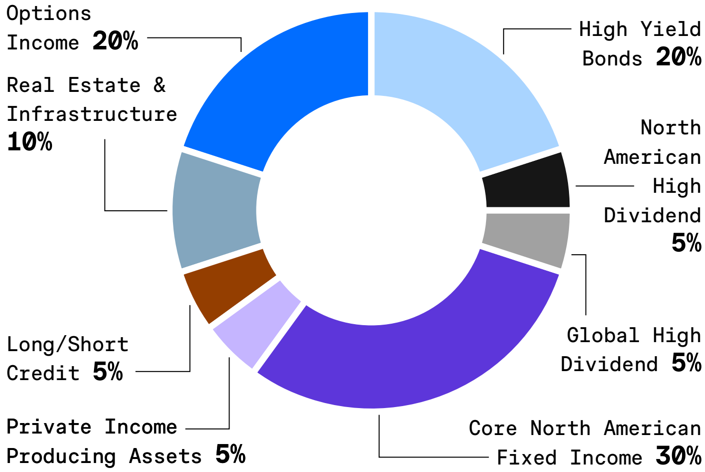


Figure 2

Paycheque Portfolio approach with Alternatives



For illustrative purposes only.

View the Dynamic Yield Curve: 12-month Distribution Yield

When Yield Matters: Six Key Funds to Consider

Dynamic Premium Yield Fund and Dynamic Premium Yield PLUS Fund

The Funds feature a flexible investment strategy focused on acquiring quality U.S. equities at attractive valuations while also generating stable income through an options writing strategy, and delivering systematic downside protection and capital preservation. Premium Yield PLUS uses moderate leverage to potentially enhance total returns.

Dynamic Alternative Yield Fund

The Fund has a unique asset mix, including both publicly listed alternative assets and select private-capital investments. By providing an attractive monthly income stream through investing in alternative assets, the Fund seeks to provide lower overall volatility than equity markets.

Dynamic Real Estate & Infrastructure Income II Fund

Providing a high level of monthly income using a moderate level of leverage, the Fund provides access to a portfolio of real estate and infrastructure assets through primarily publicly traded companies globally.

Dynamic Credit Absolute Return Fund

With its ability to generate returns throughout a complete credit cycle, the Fund invests in diversified long and short positions of North American credit securities. The Fund has the flexibility to use leverage to potentially enhance total returns, while maintaining an investment-grade credit rating.

Dynamic Short-Term Credit PLUS Fund

Created for clients looking to generate additional yield in their portfolios, the Fund benefits from the lower volatility provided by shorter-dated bonds and the active management of credit, currency and interest-rate risk.

Introducing Dynamic Payout Portfolio™

While the above funds can be considered in constructing a high-yielding portfolio, there is a one-ticket solution. An innovative retirement offering, **Dynamic Payout Portfolio** employs a unique blend of income-focused equities, fixed income and non-traditional assets designed to withstand market fluctuations and provide a higher level of consistent, sustainable, tax-efficient income.

Four Simple Words: *Spend Income, Not Capital*

Dynamic Payout Portfolio has one central goal: to deliver consistent income in bull and bear markets alike. This allows us to continue to deliver the retirement cash flow people need, without selling the investments that are generating that income – especially at a point in time where the investments are down in value. With Dynamic Payout Portfolio, retirees spend income not capital.

Contact your Financial Advisor to learn more.

Customer Relations Centre
Toll free: 1-800-268-8186
Tel: 514-908-3212
Email: service@dynamic.ca

dynamic.ca/ric

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Distributions may consist of net income, dividends, net realized capital gains, and/or return of capital. Distributions are not guaranteed, and investors should not confuse a fund's distribution yield with its performance or rate of return. To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but 1832 Asset Management L.P. does not guarantee its accuracy or reliability. The information provided is not intended to be investment advice. Investors should consult their own professional advisor for specific investment and/or tax advice tailored to their needs when planning to implement an investment strategy to ensure that individual circumstances are considered properly and action is taken based on the latest available information. Dynamic® is a registered trademark of The Bank of Nova Scotia, used under license by, and is a division of, 1832 Asset Management L.P. Paycheque Portfolio™ and Payout Portfolio™ are trademarks of The Bank of Nova Scotia, used under license. © Copyright 2026 The Bank of Nova Scotia. All rights reserved.

25DYN019_DYN_RIC_Article_Inv_EN_V1_8_DOP0126