

Credit Crunch

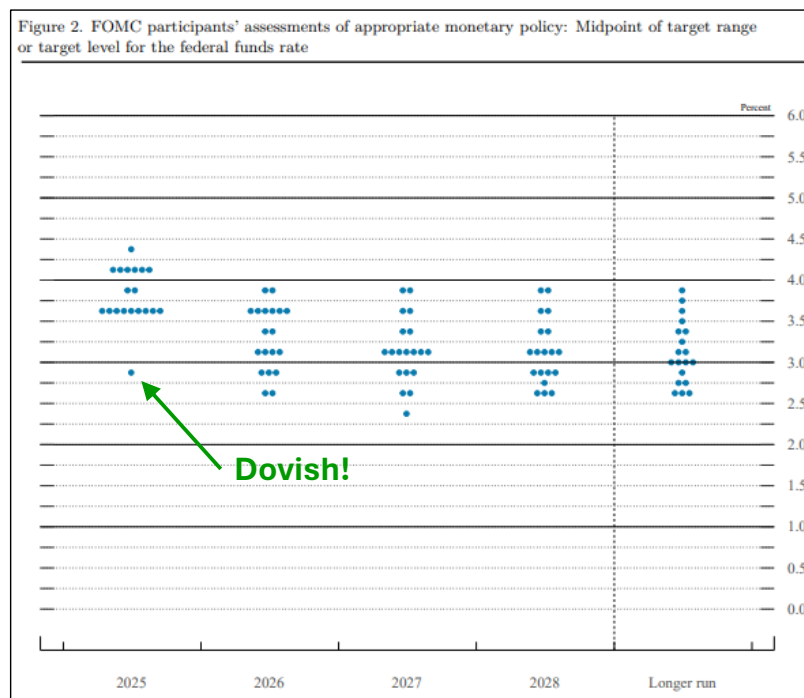
Dynamic Specialized Credit Team

September 2025 Commentary

Highlights

Fed Doves

On September 17, the Federal Open Market Committee voted to lower the overnight rate by 0.25% to 4.25%. The Fed's statement that "downside risks to employment have risen", while inflation "has moved up and remains somewhat elevated" highlighted the balancing act of the committee's dual-mandate. Governor Stephen Miran, who joined the committee one day earlier following his appointment by President Trump, dissented in favour of a 0.50% cut. President Trump, who has not been shy about his belief the Fed should lower overnight rates, is highly motivated to nominate dovish members to the committee to support his domestic policy agenda. Interestingly, the dot plots—released alongside the statement and reflecting committee members' projections for monetary policy—showed that one notably dovish member believed the need for rate cuts totaling 1.50% before the end of 2025. Clearly, the doves on the Fed's committee are beginning to spread their wings. The growing politicization of the Fed and its increasing dovish stance heightens the inflation risk for next year.



Source: US Federal Reserve, Summary of Economic Projections, September 17, 2025

Credit spreads held steady in September, even as the market digested a wave of new issuance. Historically, September has been one of the busiest months for supply and 2025 was no different. While valuations remain sensitive to the macro backdrop, the discipline of issuers and the structure of recent deals helped keep spreads from widening more materially. With valuations stretched and macro risks unresolved, we continue to lean toward shorter maturity bonds where structure and spread level provide better protection. Bond selection and issuer fundamentals remain central to our process, and we are prepared to add risk when valuations offer a clearer reward.

Portfolio Updates

Ultra-Short Term Investment Grade Mandates:

- Continued to focus on high-quality issuers that provide stability and predictable cash flows.
- Credit risk taken in the portfolio remains low as credit spreads remain tight.
- Yield generated by the portfolio is 3.25% and it is well above overnight rate in Canada at 2.5%.
- Well-positioned to provide competitive yields relative to cash-equivalent alternatives—including HISA and GIC—while maintaining daily liquidity.

Discounted Investment Grade Mandates:

- Launched in August a new \$USD ETF (TSX: DXDU.U) to focus primarily on the US market. The ETF has reached \$USD 41 million in AUM.
- Average bond price of \$94.28 for the \$USD version, \$99.70 for the \$CAD version. Discounts versus benchmarks were close to \$3.50 for both mandates highlighting the strategy's inherent tax awareness.
- Strong absolute performance for both mandates during the month as interest rates moved lower in North-America supported by disciplined credit selection.

Multi-Sector Fixed Income / High Yield Mandates:

- Monetized several shorter duration positions and used proceeds to invest in attractively priced new issues.
- Exited several positions in the energy sector where valuations exhibited limited further upside.
- Continue to maintain defensive positioning relative to benchmarks with credit selection efforts focused on higher quality issuers with stable earnings and strong credit profiles.
- Participated in selected new issues of Canadian dollar hybrid securities where we see attractive value for the risk.
- Materially reduced our exposure to Charter Communications, one of the largest issuers in the high yield market. With a very large debt stack of nearly \$100b and fickle fundamentals, we've developed concerns around the long-term health of Charter's capital structure.

Preferred Share Mandates:

- Continued to pick away at LRCNs, Institutional preferred shares and hybrids given their more attractive medium-term risk-reward profiles.
- Delivered strong relative and absolute performance in September and year-to date.
- Surprise: two new preferred shares have been issued this month!
- Supporting the preferred share market were the same drivers as usual: 1) redemptions larger than new issuance flows, 2) resilient credit spreads and 3) generally high interest rates.

Liquid Alternatives Mandates:

- **Dynamic Credit Absolute Return Fund**
 - Increased credit hedges given tight credit valuation to reduce beta.
 - 12% of the portfolio is now invested in short-duration US securitized products. Position has been built over the last few months to add diversification and add return to the portfolio.
 - Continued to increase the allocation to short-duration, yield-to-call high yield bonds issued by well-capitalized borrowers, capturing opportunities that offer attractive carry and favorable optionality.
 - Very active in \$CAD and \$USD new issues activity over the period.
- **Dynamic Credit Opportunities Fund**
 - Increased credit hedges as credit valuations tightened through the month of September helping to reduce the correlation of the fund to the overall market.
 - Continued to add to defensive short-duration Attractive Income positions that we expect will be called/refinanced in the near-term, notably Echostar spectrum-secured bonds post the company's agreement to sell spectrum assets to SpaceX.
 - Monetized our position in Nabors bonds after the company announced a deleveraging asset sale leading to a material appreciation of the debt structure.
 - Added Canadian dollar Bonterra Energy 10.5% 2030 bonds to the fund after a meeting with management affirmed the opportunity in the security.

Investment Grade**Dynamic Ultra Short-Term Bond Fund / Dynamic Active Ultra Short-Term Bond ETF (DXV)**

Invests in high-quality, liquid, Investment Grade corporate bonds, and uses hedging instruments to maintain duration less than 1 year

Dynamic Active Discount Bond ETF (DXDB) / Dynamic Active US Discount Bond ETF (DXDU.U)

Tax-aware strategy targeting discounted 3-7 year Investment Grade bonds

Multi-Sector Fixed Income**Dynamic Active Credit Strategies Private Pool**

Flexible mandates that target opportunities across the credit spectrum including, Investment Grade, High Yield, Hybrids, Prefs, Loans, etc.

Dynamic Active Crossover Bond ETF (DXO)

Highly focused mandate that isolates the positive dynamics of bonds residing on either side of the Investment Grade/High Yield threshold

High Yield**Dynamic High Yield Bond Fund**

Primarily invests in performing credits rated High Yield and other credit securities with similar characteristics such as Hybrids, Loans, etc.

Preferred Shares**Dynamic Preferred Yield Class / Dynamic Active Preferred Shares ETF (DXP)**

Delivers tax-advantaged income through actively managed exposure in North American Preferred Shares

Liquid Alternatives**Dynamic Credit Absolute Return Fund**

Alternative strategy designed to enhance total returns throughout a credit cycle while maintaining an Investment Grade credit rating

Dynamic Credit Opportunities Fund / Dynamic Credit Opportunities ETF (DXCO)

Alternative strategies targeting high conviction opportunities across the credit spectrum, seeking to deliver equity-like returns with low volatility

Fund Characteristics*	Avg. Credit Rating	Yield-to-Maturity*	Int. Rate Duration	Credit Duration
Dynamic Ultra Short-Term Bond Fund	A	3.23%	0.5 yrs	1.6 yrs
Dynamic Active Ultra Short-Term Bond ETF (DXV)	A	3.25%	0.5 yrs	1.6 yrs
Dynamic Active Discount Bond ETF (DXDB)	BBB+	3.74%	4.2 yrs	4.0 yrs
Dynamic Active US Discount Bond ETF (DXDU.U) ¹	BBB+	4.84%	4.4 yrs	4.2 yrs
Dynamic Active Credit Strategies Private Pool	BBB-	4.50%	4.6 yrs	3.7 yrs
Dynamic Active Crossover Bond ETF (DXO)	BB+	4.73%	5.5 yrs	5.2 yrs
Dynamic High Yield Bond Fund	BB	5.00%	4.0 yrs	3.7 yrs
Dynamic Preferred Yield Class	P2M	4.53%	-	-
Dynamic Active Preferred Shares ETF (DXP)	P2M	4.56%	-	-
Dynamic Credit Absolute Return Fund	A-	5.39%	1.4 yrs	4.0 yrs
Dynamic Credit Opportunities Fund/DXCO ¹	BB+	6.93%	4.2 yrs	3.1 yrs

Annualized Returns Net of Fees (%)	1M	3M	YTD	1yr	3yr	5yr	10yr	S.I.**
Dynamic Ultra Short-Term Bond Fund	0.37	1.03	3.16	4.23	5.47	3.29	2.55	2.37
Dynamic Active Ultra Short-Term Bond ETF (DXV)	0.39	1.08	3.28	4.36	5.56	3.42	-	3.16
Dynamic Active Discount Bond ETF (DXDB)	1.40	2.31	5.14	6.09	-	-	-	7.45
Dynamic Active Credit Strategies Private Pool	1.06	2.22	5.24	5.45	8.75	4.61	4.08	3.37
Dynamic Active Crossover Bond ETF (DXO)	1.09	2.28	6.08	6.10	9.37	4.34	-	4.73
Dynamic High Yield Bond Fund	0.76	2.19	5.21	5.69	9.75	5.59	4.55	5.21
Dynamic Preferred Yield Class	0.81	4.61	12.34	17.13	14.66	12.63	8.25	5.82
Dynamic Active Preferred Shares ETF (DXP)	0.83	4.65	12.57	17.40	14.77	12.72	-	7.51
Dynamic Credit Absolute Return Fund	0.50	1.45	5.27	6.67	6.63	5.00	4.76	5.04
Dynamic Credit Opportunities Fund	0.42	2.00	5.98	6.86	-	-	-	8.24

Source: 1832 Asset Management LP., data, series F and ETF performance as of September 30, 2025. *YTM before cost of borrow. Fund characteristics include hedging strategies when applicable.

**Inception dates: Dynamic Ultra Short Term Bond Fund F: 2013-09-06, Dynamic Active Ultra Short-Term Bond ETF (DXV): 2018-03-26, Dynamic Active Discount Bond ETF (DXDB): 2022-11-07, Dynamic Active Credit Strats Pvt Pl F: 2014-06-06, Dynamic Active Crossover Bond ETF (DXO): 2017-01-20, Dynamic High Yield Bond Series: 2002-04-05, Dynamic Preferred Yield Class Series F: 2013-04-10, Dynamic Active Preferred Shares ETF: 2017-01-20, Dynamic Credit Absolute Return F: 2014-01-01, Dynamic Credit Opportunities F: 2023-09-25. Dynamic Credit Opportunities ETF (DXCO): 2024-10-23, Active U.S. Discount Bond ETF (DXDU.U): 2025-08-26. ¹Investment fund regulations restrict the presentation of performance figures until a fund reaches its one-year anniversary. YTM is in USD.

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