

DYNAMIC LIVE

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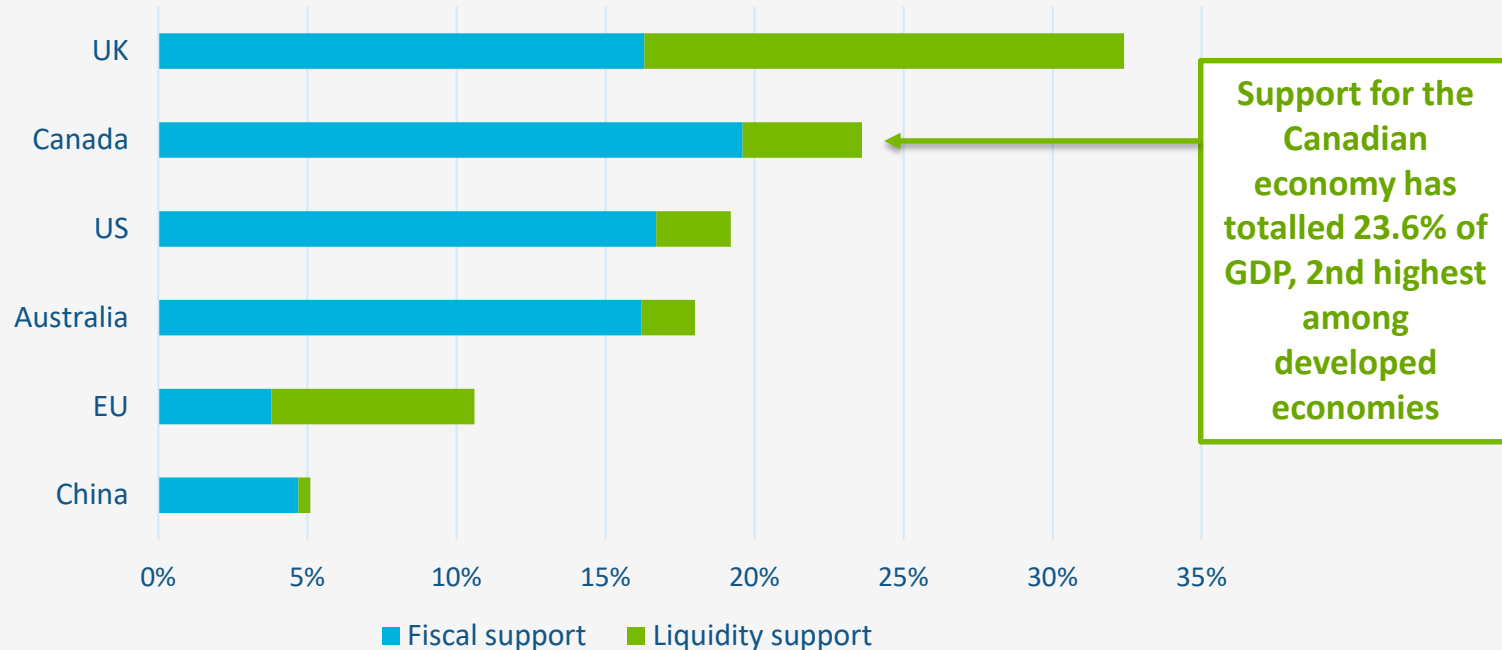
After the Central Bank Vaccine: What's Next?

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Fiscal and Liquidity Immunization

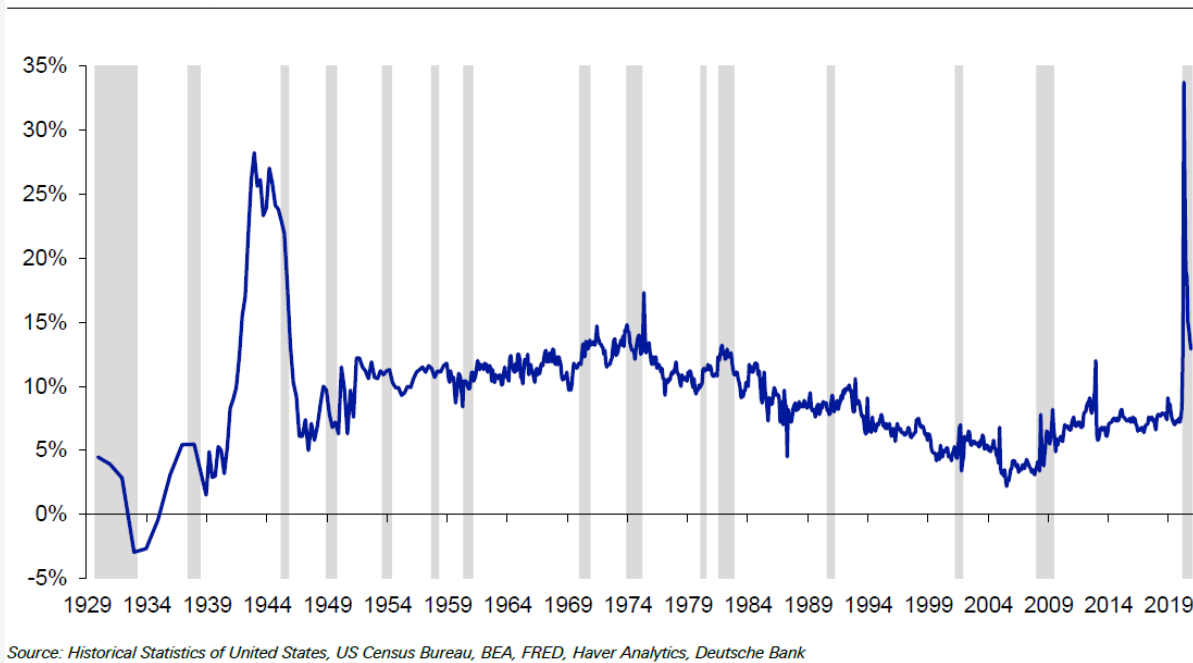
Support in response to pandemic as percent of GDP



Source: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>.

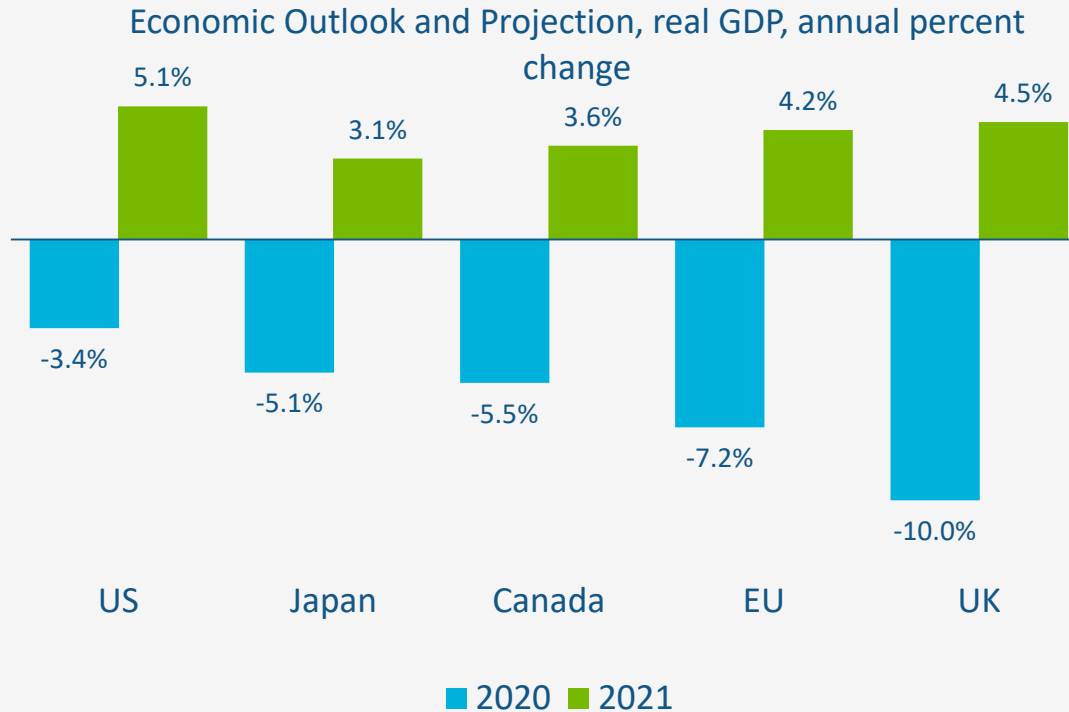
REAL immunization should bring catch-up consumption and return to growth

Personal savings rate in United States



Source: Historical Statistics of United States, US Census Bureau, BEA, FRED, Haver Analytics, Deutsche Bank

REAL immunization should bring catch-up consumption and return to growth

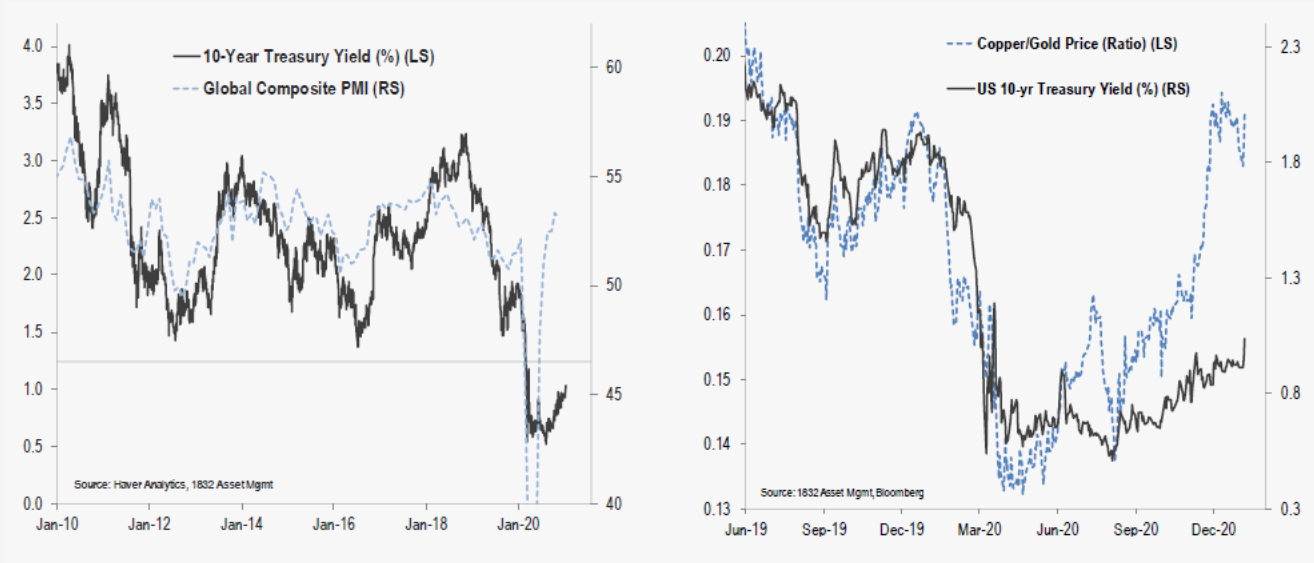


Capital Economics recently increased Canada's forecast to 4.6%

Source: <https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>.

What's next for credit?

➤ Potential upward pressure for yields

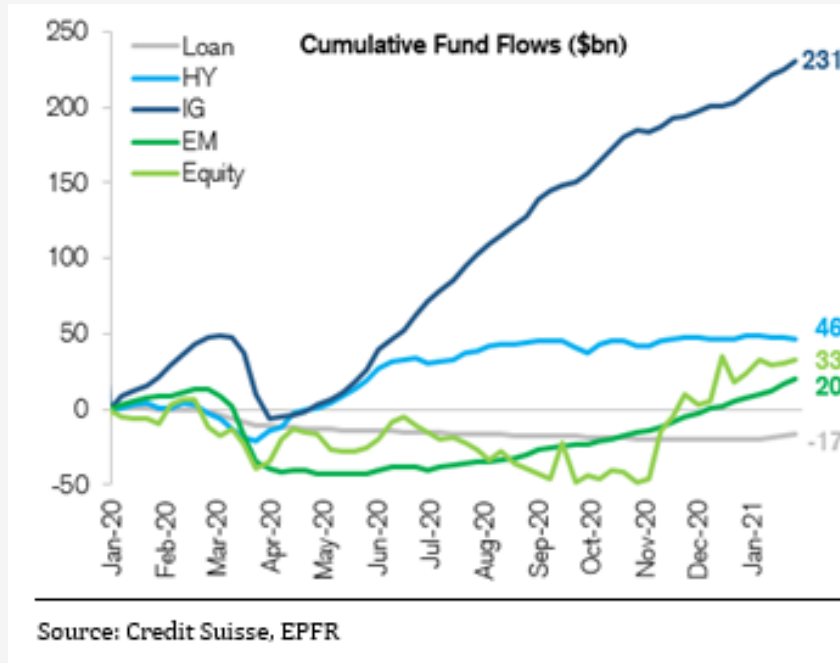


Source: 1832 Asset Management

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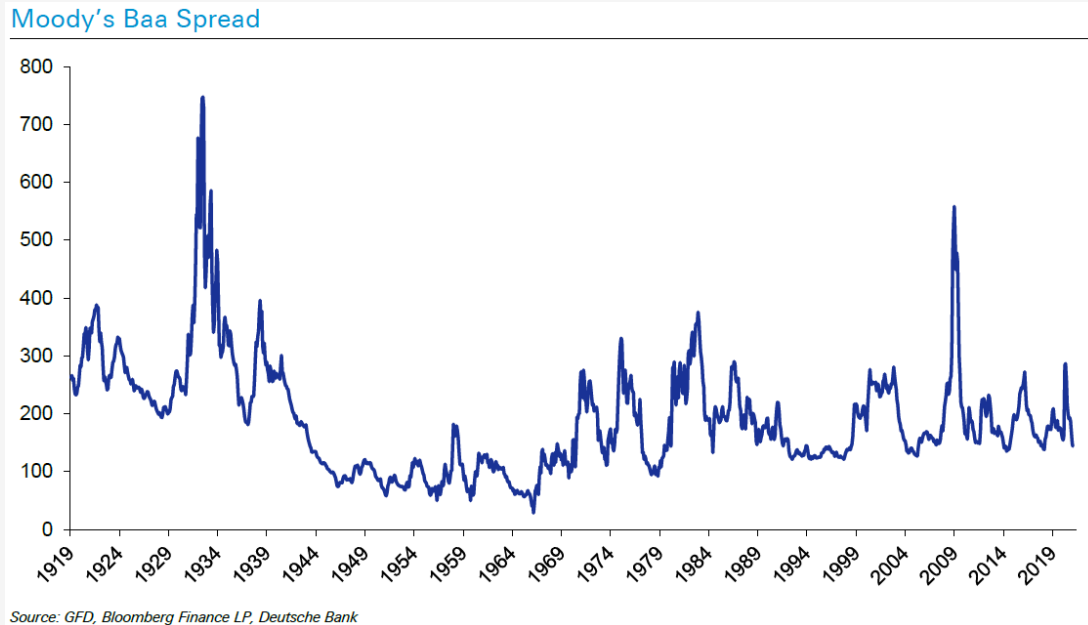
What's next for credit?

- Gap higher in rates could reverse inflows into IG



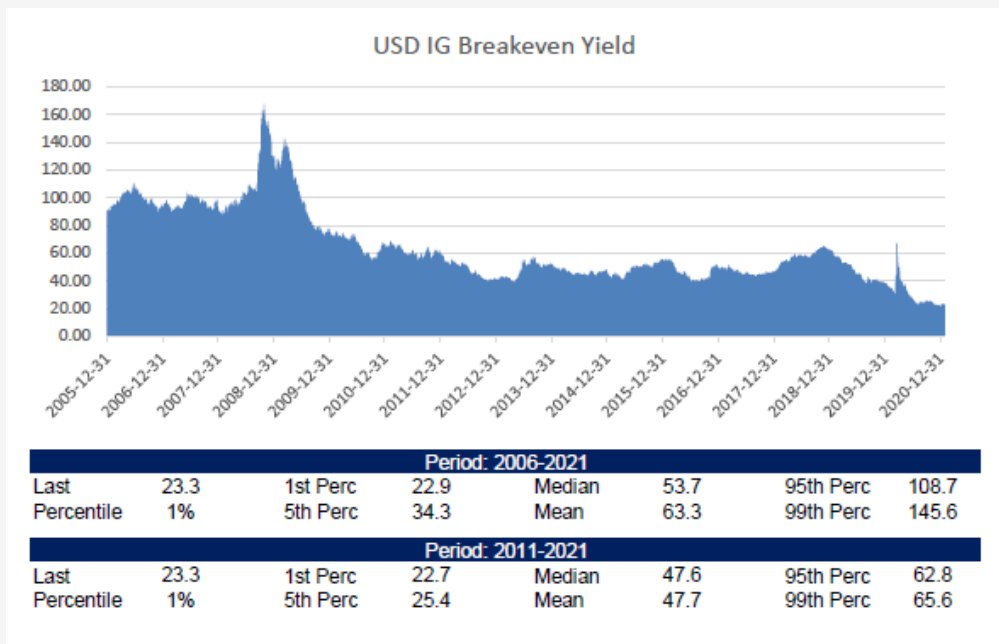
What's next for credit?

- Credit spreads tight but they typically spend long periods very tight before intense spikes higher in recessions/crises



What's next for credit?

- Companies termed-out maturities and investors must expect higher volatility and lower returns in Investment Grade



| Date | Yield | Duration | Breakeven |
|--------------|-------|----------|-----------|
| Dec 31, 2005 | 5.37% | 5.91 | 91 bps |
| Dec 31, 2010 | 4.18% | 6.24 | 67 bps |
| Dec 31, 2015 | 3.69% | 6.64 | 56 bps |
| Jan 31, 2021 | 1.82% | 8.09 | 23 bps |

Source: 1832 Asset Management LP as of Jan 31, 2021

What's next for credit?

- Unprecedented stimulus combined with re-opening should be headwind to traditional fixed income.
- Easy money in generic credit has been made but still pockets of opportunities, time for active management

| Name | YTM | Rating | Duration |
|---|--------------|------------|-----------------|
| FTSE Canada Universe Bond Index | 1.26% | AA- | 8.22 |
| Dynamic Investment Grade Floating Rate Fund | 0.75% | A | 0.56 |
| Dynamic Credit Absolute Return Fund | 4.16% | A- | 1.02 |
| Dynamic Active Credit Strategies Private Pool | 4.42% | BB | 4.96 |
| Dynamic High Yield Bond Fund | 5.08% | BB- | 3.58 |
| Dynamic Preferred Yield Class | 5.21% | P2L | Negative |

Source: 1832 Asset Management LP as of January 31, 2021

Dynamic Credit Absolute Return Fund

Investment Objectives

- Maximize absolute returns over a **complete market cycle**
- **Mitigate volatility and interest rate risk**
- Distribution yield of 4.1% (Series A), 5.3% (Series F) while **remaining investment grade**

Investment Strategies

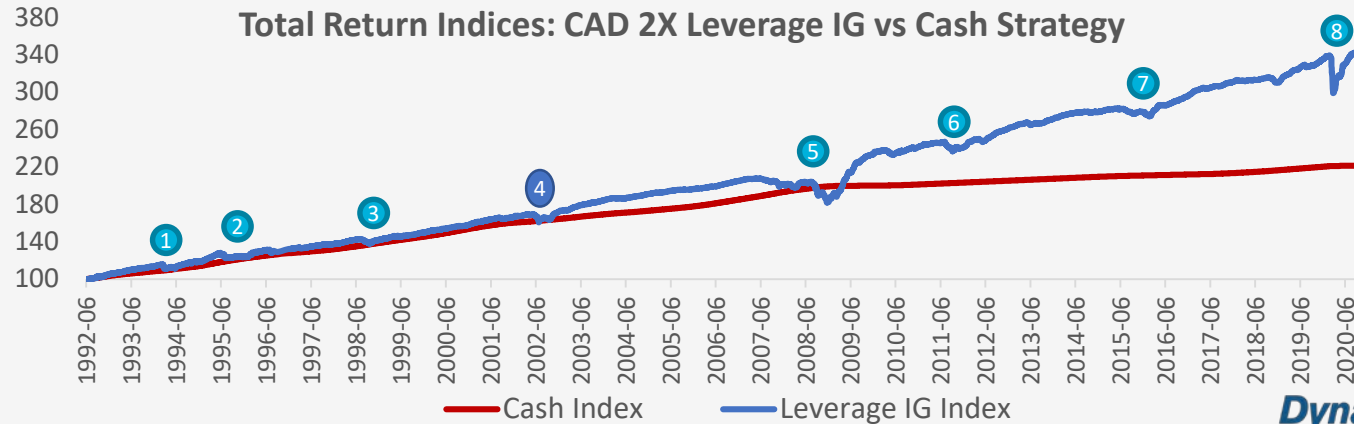
1. Leveraged investment grade credit
2. Long/short credit
3. Credit arbitrage

* The distribution yield for Dynamic Credit Absolute Return Fund Series A is based on a net asset value per unit of \$5.02 as of Dec 31, 2020 and \$4.98 as of Dec 31, 2020 for Series F. Monthly distribution yields may fluctuate as the month end NAVPU changes. A Fund's distribution yield should not be confused with its performance or rate of return.

Short Term Investment Grade Leverage

Rapid recoveries following drawdowns

| | Drawdowns >2.5 % | Spread widening (bps) | Date | Date of recovery | Number of days to recovery | 12 month return following drawdown | 2 year annualized return following drawdown |
|------|------------------|-----------------------|------------|------------------|----------------------------|------------------------------------|---|
| 1 | -4.17 % | 77 | 4/6/1994 | 8/24/1994 | 100 | +10.9 % | +7.5 % |
| 2 | -4.32 % | 84 | 8/9/1995 | 3/8/1996 | 150 | +4.8 % | +5.1 % |
| 3 | -3.47 % | 94 | 10/14/1998 | 2/1/1999 | 79 | +7.0 % | +6.6 % |
| 4 | -5.08 % | 161 | 7/25/2002 | 11/21/2002 | 87 | +12.0 % | +7.9 % |
| 5 | -12.41 % | 397 | 12/19/2008 | 5/26/2009 | 112 | +28.2 % | +15.0 % |
| 6 | -4.12 % | 173 | 10/6/2011 | 2/27/2012 | 102 | +8.6 % | +6.2 % |
| 7 | -3.01 % | 184 | 2/17/2016 | 4/22/2016 | 47 | +9.8 % | +6.7 % |
| 8 | -11.96 % | 204 | 3/26/2020 | 8/13/2020 | 140 | ?? | ?? |
| Avg. | -6.07 % | 172 | | | 96 | +11.6% | +7.9% |



Why us?

Credit Selection Enhances Levered Returns

- Independent fundamental credit analysis, not only relying on credit ratings agencies
- Focusing on credits that exhibit potential for spread compression and roll down



Sources: 1832 Asset Management L.P., Bloomberg. For illustrative purposes only. As of 1/31/2021. *Strategy inception: 12/31/2013.

Leverage applied to returns represents the actual leverage that has occurred within the levered investment grade strategy of the Dynamic Credit Absolute Return Fund.

Performance

| Annualized returns (%) | | | | | | | |
|--|---------|----------|----------|--------|---------|---------|-----------------|
| As of January 31, 2021 | 1 month | 3 months | 6 months | 1 year | 3 years | 5 years | Since inception |
| Dynamic Credit Absolute Return Fund | 0.97 | 2.36 | 3.98 | 6.94 | 2.98 | 5.00 | 5.23 |
| Dynamic Credit Absolute Return II Fund | 0.76 | 2.39 | 4.37 | 7.22 | - | - | 5.62 |

| Calendar year return (%)* | | | | | | | | |
|------------------------------------|------|------|-------|------|-------|-------|-------|------|
| Strategy | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | YTD |
| 1. Leveraged IG corporate bonds | 3.07 | 0.78 | 2.64 | 2.73 | -0.10 | 4.58 | 7.87 | 0.72 |
| 2. Long/short credit opportunities | 3.77 | 6.17 | -0.97 | 1.97 | -0.48 | -0.75 | -0.92 | 0.08 |
| 3. Credit arbitrage | 1.21 | 2.46 | 2.59 | 1.11 | -0.11 | -0.29 | -0.73 | 0.17 |
| Total | 8.05 | 9.40 | 4.26 | 5.81 | -0.69 | 3.54 | 6.22 | 0.97 |

Source: 1832 Asset Management L.P., Series F returns. Fund inceptions: DCARF January 2014 and DCARFII August 2019 *Dynamic Credit Absolute Return Fund as of 1/31/2021.

Why us?

An Effective Portfolio Complement

| | DCARF | Cdn Bond Universe | High Yield | S&P/TSX |
|---------------------------------|-------|-------------------|------------|---------|
| Annualized return | 5.26% | 4.51% | 4.71% | 5.53% |
| Standard deviation | 4.61% | 4.11% | 7.45% | 11.76% |
| Sharpe ratio | 1.13 | 1.08 | 0.62 | 0.46 |
| % of positive months | 81% | 64% | 68% | 65% |
| Yield to maturity C\$ | 4.16% | 1.26% | 4.92% | N/A |
| Weighted Avg. Modified Duration | 1.02 | 8.22 | 4.40 | N/A |
| Weighted Avg. Credit Rating | A- | AA- | B+ | N/A |
| Correlation to Fund | | 0.23 | 0.58 | 0.56 |

- Potential for diversification benefits due to low correlations
- 4% YTM with much lower duration than traditional fixed income

Sources: 1832 Asset Management L.P., Bloomberg. Based upon monthly returns since inception. Series F returns. As of 1/31/2021. Fund inception: January 2014.

Preferred Shares

Market drivers

1) Subordination risk (general risk appetite)

- Accounted for by corporate credit spreads

2) Interest rates

- Impact on income
 - ❑ Canadian 5-year (resets), 3-month (floating) in contrast to 30-year (perpetuals)
- Relative value between risk free rates vs risky assets (including preferred shares)
 - ❑ CDN + US treasury yields

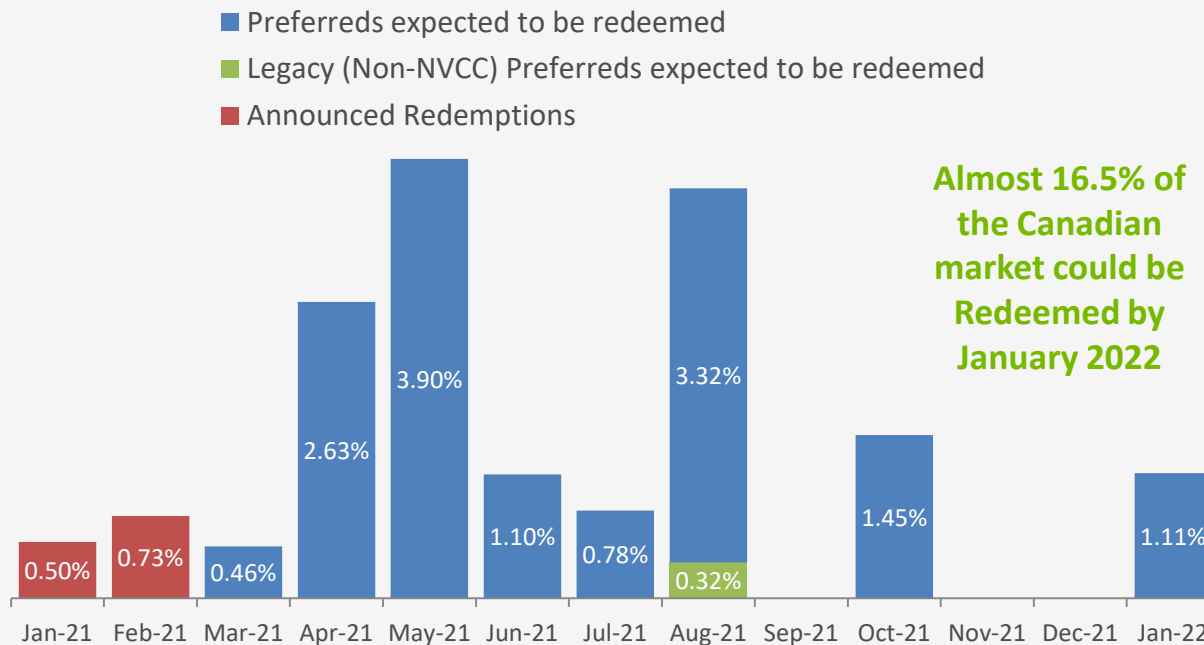
3) Market technicals

- Net supply (new issuance – redemptions)
- Fund flows (between passive-active, tax-loss selling/switching)

Preferred Shares

A Potential Reduction in Net Supply should be a Tailwind

Percent of Canadian Preferred Share Market by Month



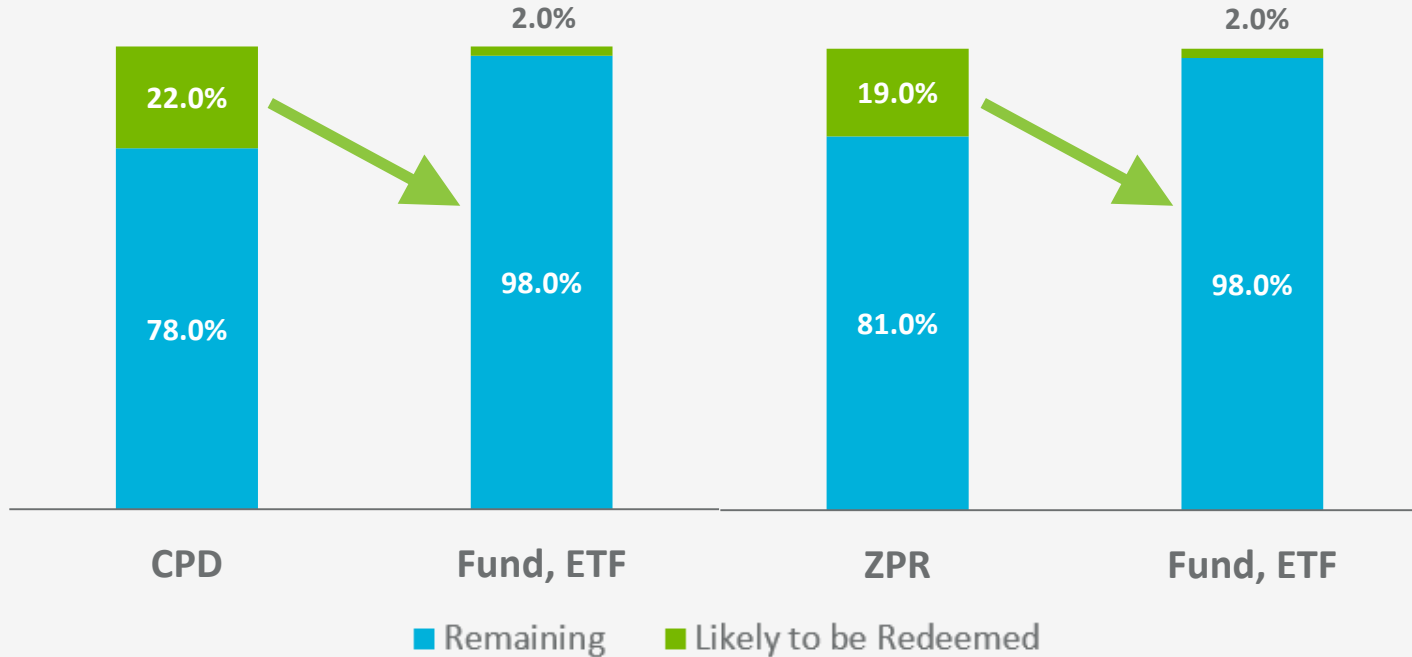
Source: Bloomberg, as of 1/31/2021.

Why are Issuers Likely to Redeem Now?

- Lots of high back-end rate resets that are coming up to their call date
- Cheaper / tax-advantaged sources of capital have become available
 - LRCNs
 - Hybrid Bonds

Why us?

Positioned to maximize the upside from shrinking asset class



Redemptions over the next 12-24 months mean that ~\$650M may be reinvested by CPD & ZPR in the remaining

Sources: 1832 Asset Management L.P., Bloomberg. *iShares S&P/TSX Canadian Preferred Share Index ETF, for illustrative purposes only

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Conclusion

- The real vaccine is here and re-opening is inevitable
- Unfavorable environment for interest rate sensitive assets
- Strong technicals favor alternative credit strategies and Canadian preferred shares
- Our fundamental research combined with active credit selection differentiates us from passive fixed income

Important information

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