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with DYNAMIC FUNDS

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An Equity Overlay Option with Enhanced Yield

Damian Hoang

Vice President & Portfolio Manager

Derek Bastien

Portfolio Manager

Quantamental Team

Portfolio Managers



Damian Hoang, B.A.Sc., MBA
Vice President & Portfolio Manager

- Joined Dynamic in May 2012
- Co-managing funds using options strategies totaling over \$3 billion
- Has researched, developed and is deploying fundamental and quantitative (“quantamental”) strategies and techniques
- Past experience in both structuring and executing complex hedging and yield-enhancement strategies
- Experience in using options to support both single stock fundamental strategies and macro tactical asset allocation strategies



Derek Bastien, B.Sc., CFA
Portfolio Manager

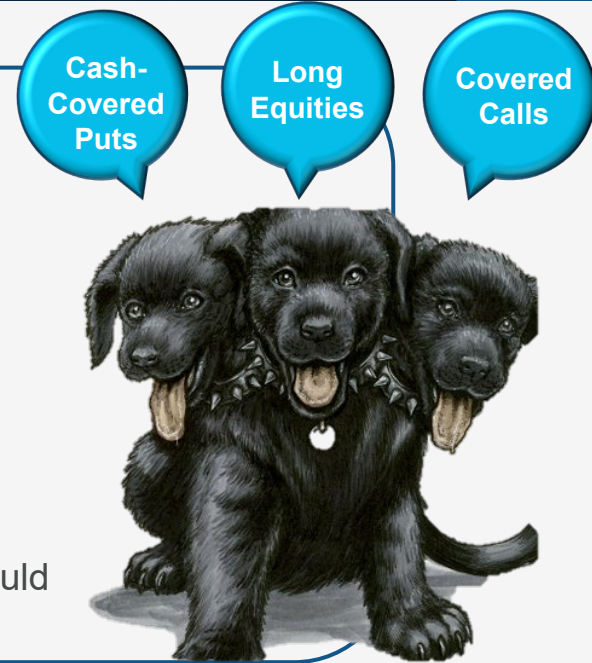
- Joined the Quantamental team in 2014
- Undertakes fundamental analysis on the Health Care, Materials, Energy and Communication Services sectors
- Structures and analyzes derivative-based strategies and performs quantitative analysis
- Played an integral role in assisting Damian in building the infrastructure needed to manage their options-based strategies
- Promoted to the role of Associate Portfolio Manager in 2019 and Portfolio Manager in 2022

Dynamic Active Enhanced Yield Covered Options ETF (DXQ)

Dynamic Active Enhanced Yield Covered Options ETF is a concentrated portfolio of ~30 quality blue chip U.S. equities at attractive valuations that generates stable income through options writing.

By selling cash covered puts and covered calls on the holdings in the portfolio, this generates a large conditional dividend which provides a robust yield vs. an equivalent long only portfolio.

DXQ differs significantly from our fund offerings as it does not purchase additional systematic protection, has higher net long exposure, and should therefore have higher market participation.



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Strategic Asset Allocation

Asset mix

Build up of long equities through direct purchase or eventual put assignments
Equity exposure partially offset to manage beta



Puts are written on stocks the team wants to buy lower (obligation to buy stocks on the dip)
Puts written at 7-12% discount to current stock price
Premium yield on each option averages ~10% annualized

Covered calls typically written when stock held has approached fair value
Obligation to sell stock higher

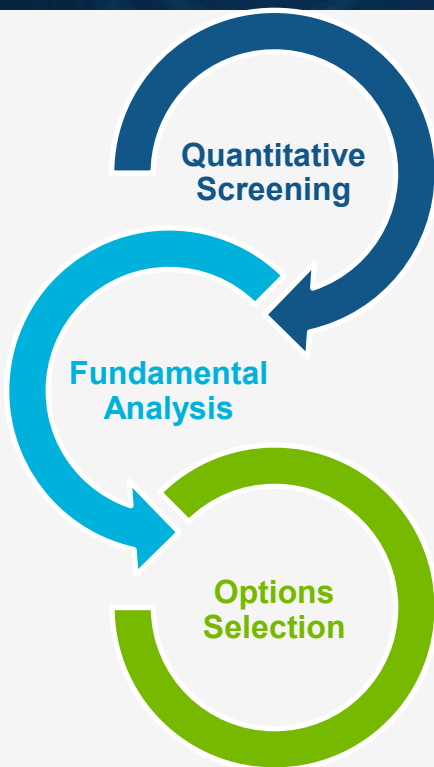
The team's goal is to buy quality companies with moderate growth and reasonable valuation as determined through the *quantamental* investment process.

Puts are written at a discount to where a stock currently trades and if assigned the shares are held until valuation approaches fair value then covered calls may be written.

Premiums are collected through the put and call option writing.

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Quantamental Investment Process Defined



QUANTITATIVE SCREENING

- S&P 500 candidates favoured rank high on quality, value and growth metrics
- Examples of a quality metric - ROIC, value metric - EV/EBITDA, and a growth metric - historical earnings growth stability

FUNDAMENTAL ANALYSIS

- Thorough fundamental analysis is performed on candidates that score well on the quantitative metrics and further prioritized within industries with favourable macro conditions
- Fundamental analysis and quantitative tools are used to analyze the relative attractiveness of a candidate stock to its peers
- Stocks determined to be attractively priced relative to their 'fair value' are added to the portfolio's investible universe

OPTIONS SELECTION

- Options are written on the portfolio's investible universe, taking into consideration the fundamental view, attractiveness of the option and the incremental risk the stock would add to the portfolio

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Cash-Covered Put Writing

An example



Fair Valuation Range for Eli Lilly = \$380-\$400

Write cash-covered puts on quality stocks with margin of safety ~8% to 12%

- For example, write a \$290 put on Eli Lilly & Co when stock was trading at \$323
- Receive \$4.86 (~1.7% yield) premium for a 49-day option (~12.5% annualized yield)
- Set aside \$290 to back that put
- Commit to buy Eli Lilly & Co at \$290 (~10% lower than \$323)
- The first \$33 of loss wouldn't be our economic loss → Margin of Safety ~10%

Covered Call Writing

An example



Fair Valuation Range for Eli Lilly = \$380-\$400

Write covered calls on quality stocks owned while retaining reasonable upside participation

- For example, write a \$360 call on Eli Lilly & Co when stock was trading at \$323
- Receive \$4.40 (~1.35% yield) premium for a 49-day option (~10% annualized yield)
- Own the stock, therefore no cash needs to be set aside while earning a conditional dividend
- Commit to sell Eli Lilly & Co at \$360 (~11% higher than \$323)
- The first \$37 of gain would accrue to the fund → Upside participation ~11% locking in sell price

Conditional Dividend

Gained through options writing

The Lilly logo is written in a red, cursive script font.

Fair Valuation Range for Eli Lilly = \$380-\$400

In the previous LLY example we can collect \$9.26 on a stock that pays a 1.2% dividend

- This is equivalent to a ~22.5% annualized conditional dividend vs 1.2% annualized holding only stock
- While having a 10% margin of safety on the put and a 11% upside on the call over ~1.5 months

Extrapolating this to a portfolio of ~30 blue chip names

- Can collect a 9-11% gross internal yield with writing puts/calls on our blue chip holdings
- This compares favorably to the blue chip portfolio's ~1% dividend yield

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Alternative Offerings

Investment guidelines

	Dynamic Active Enhanced Yield Covered Options ETF (DXQ)	Dynamic Premium Yield Fund (Series F)	Dynamic Premium Yield PLUS Fund (Series F)
Gross yield	~9% to ~11%	~10%	~20%
Distribution yield	~7.5%	~6%	~9%
Liquid alternative	No	No	Yes
Investment strategy ¹	Puts typically 30 - 60% Long equities typically 30 - 60% Covered calls typically 20 - 40%	Puts typically > 50% Long equities typically < 40% Covered calls opportunistic	Puts typically > 50% Long equities typically < 40% Covered calls opportunistic
Leverage primarily through gross derivatives exposure (primarily written puts)	n/a	n/a	Up to 150%
Number to holdings	20 - 35	>45	>45
Systematic protection	n/a	Buying protective puts on index ETFs (budget 1.0-1.5% per annum on average)	Buying protective puts on index ETFs (budget ~2% per annum on average)
Additional protection	Shorting equity index futures	Shorting equity index futures	Shorting equity index futures
Beta	0.50 - 0.75	0.40 - 0.50	~0.50
Currency hedging	n/a	Between 50 – 90%	Between 50 – 90%
Management Fee / FAF	0.65% / NA	0.85% / 0.14%	0.85% / 0.14%

¹ Percentages are normalized to 100 where applicable

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Important Information

ADVISOR USE ONLY

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments and ETF's. Please read the prospectus before investing. Mutual funds and ETF's are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return are the historical annual compound total returns including changes in unit values and reinvestment of all distributions does not take into account sales, redemption or option changes or income taxes payable by any security holder that would have reduced returns. Series A units are available for purchase to all investors, while Series F units are only available to investors who participate in eligible fee-based or wrap programs with their registered dealers. Differences in performance between these series are primarily due to differences in management fees and fixed administration fees. Performance results for Series F units may also appear higher than for Series A units as the management fee does not include the trailing commission.

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