

Dynamic Credit Absolute Return II Fund

Annual Management Report of Fund Performance

For the year ended June 30, 2020

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-800-268-8186, by writing to us at 1832 Asset Management L.P., Dynamic Funds Tower, 1 Adelaide Street East, 28th Floor, Toronto, ON, M5C 2V9 or by visiting our website at www.dynamic.ca or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's interim financial statements, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

1832 Asset Management L.P. is the manager (the "Manager") of the fund. In this document, "we", "us", "our" and the "Manager" refer to 1832 Asset Management L.P. and the "Fund" refers to Dynamic Credit Absolute Return II Fund.

The term "net asset value" or "net asset value per unit" in this document refers to the net asset value determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund Continuous Disclosure ("National Instrument 81-106"); while the term "net assets" or "net assets per unit" refers to total equity or net assets attributable to unitholders of the Fund as determined in accordance with International Financial Reporting Standards ("IFRS").

Caution Regarding Forward-Looking Statements

Certain portions of this report, including, but not limited to, "Recent Developments", may contain forward-looking statements about the Fund and the underlying funds, as applicable, including statements with respect to strategies, risks, expected performance events and conditions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "projects" and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future action by the Fund is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be

unforeseeable. Accordingly, current assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and other factors are described in the Fund's simplified prospectus, under the heading "Risk Factors".

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next management report of fund performance, and that the forward-looking statements speak only to the date of this management report of fund performance.

Investment Objective and Strategies

The Fund seeks to maximize absolute returns over a complete market cycle through investment in diversified long and short positions of primarily North American credit securities while seeking to mitigate interest rate risk while maintaining a weighted averaged credit rating of "Investment Grade".

The Fund will use alternative investment strategies including the use of leverage.

All of the Fund's objectives and strategies are further described in the simplified prospectus of the Fund.

Risk

The risks associated with investing in the Fund are as described in the simplified prospectus. There were no material changes to the Fund during the period that affected the overall level of risk of the Fund.

Results of Operations

The Fund was created on August 6, 2019. Investment performance is not provided for a Fund that has been available for less than one year.

The Fund features a flexible investment approach that can take both long and short positions in a wide range of North American credit securities while maintaining low sensitivity to interest rates. The Fund can use leverage up to 300% of net asset value to seek to impact the returns of high-quality, liquid, short-term investment grade corporate bonds. This requires shorting equivalent maturity government bonds in order to minimize sensitivity to interest rates. By actively managing its long, short and cash positions, the Fund aims to generate an absolute return over a full market cycle.

During the period the Fund continued to invest in the highest quality and most liquid investment grade corporate bonds in North America in the levered investment grade strategy to ensure the Fund generates positive carry and to provide investors exposure to positive effects of credit spreads tightening as maturities roll down the curve. The Fund also added exposure to long/short and risk arbitrage strategies as opportunities presented themselves.

During the period, the Fund's aggregate exposure to these strategies ranged from 38% to 284%.

In the final three-months of the period, we shifted the conservative positioning of the Fund to a more aggressive stance by deploying capital in short-term investment grade issues which are the prime beneficiaries of credit facility programs announced by central banks in late-March. Leverage in the Fund was approximately 276% at the end of the period as valuations supported a vastly improved risk/reward relationship. In particular, we found opportunities in the front-end of credit curves where there was considerable selling pressure.

We also added to our credit arbitrage positions by taking advantage of valuation dislocations in U.S. and Canadian markets in the same issuers although the constrained liquidity environment made it challenging to execute. At the end of the period the Fund was primarily holding high quality investment grade Canadian corporate bonds with also exposure in U.S. investment grade corporate bonds and some exposure to high yield debt.

The Fund ended the period with an average yield to maturity of 5.30% and a weighted-average credit rating of single A and a low duration of 0.7 years. Currency movements had no impact on Fund performance as the Fund fully hedges its currency exposure.

The Fund's net asset value increased to \$54.4 million since inception. This change was composed of net sales of \$53.8 million, investment performance of \$0.9 million and cash distributions of \$0.3 million. The investment performance of the Fund includes income and expenses which vary year over year.

Prior year results are not available for comparative purposes as the Fund commenced operations during the current year.

Certain series of the Fund, as applicable, may make distributions at a rate determined by the Manager from time to time. If the aggregate amount of distributions in such series exceeds the portion of net income and net realized capital gains allocated to such series, the excess will constitute a return of capital. The Manager does not believe that the return of capital distributions made by such series of the Fund have a meaningful impact on the Fund's ability to implement its investment strategy or to fulfill its investment objective.

Recent Developments

COVID-19

The spread of the COVID-19 virus began in late 2019 and led to a subsequent and dramatic global shutdown by March 2020 of all but the most essential activities. Many businesses and schools were closed along with borders as mobility restrictions were put in place around the world. This generated significant headwinds for corporate and consumer income which led to an increase in financial market volatility. In late March, markets began to see a dramatic reversal with investors encouraged by the amount of stimulus being introduced into the financial system by global policy makers. Trillions of dollars of supplementary income, tax relief, and lending backstops were put into place. This was joined by equally aggressive interest rate reductions, asset purchase programs, and the installation of liquidity facilities by central banks. While 2020 is likely to encompass one of the deepest global recessions in history, the incoming data indicates that it might also be among the shortest in duration. Much depends on the evolution of a vaccine and the efficacy of delivering it to everyone around the world. For now, we continue to monitor the situation and the effects on the Fund.

Related Party Transactions

The Manager is a wholly-owned subsidiary of The Bank of Nova Scotia ("Scotiabank"). Scotiabank also owns, directly or indirectly, 100% of Scotia Securities Inc., a mutual fund dealer, and Scotia Capital Inc. (which includes ScotiaMcLeod and Scotia iTRADE), an investment dealer.

The Manager, on behalf of the Fund, may enter into transactions or arrangements with other members of Scotiabank or certain other companies that are related or connected to the Manager (each a "related party"). All transactions between the Fund and the related parties are in the normal course of business and are carried out at arm's length terms.

The purpose of this section is to provide a brief description of any transaction involving the Fund and a related party.

Management Fee

The Manager is responsible for the day-to-day management and operations of the Fund. Certain series of the Fund pay the Manager a management fee for its services as described in the

“Management Fee” section later in this document. The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and calculated and paid monthly.

Fixed Administration Fees and Fund Costs

The Manager pays the operating expenses of the Fund, other than Fund Costs, in exchange for the payment by the Fund of a fixed rate administration fee (the “Fixed Administration Fee”) to the Manager with respect to each series of the Fund. The expenses charged to the Fund in respect of the Fixed Administration Fee are disclosed in the Fund’s financial statements. The Fixed Administration Fee is equal to a specified percentage of the net asset value of a series, calculated and paid in the same manner as the management fees for the Fund. Further details about the Fixed Administration Fee can be found in the Fund’s most recent simplified prospectus.

In addition, each series of the Fund is responsible for its proportionate share of certain operating expenses (“Fund Costs”). Further details about Fund Costs can be found in the Fund’s most recent simplified prospectus.

The Manager, at its sole discretion, may waive or absorb a portion of a series’ expenses. These waivers or absorptions may be terminated at any time without notice.

Related Brokerage Commissions

From time to time, the Fund may enter into portfolio securities transactions with Scotia Capital Inc. or other related dealers in whom Scotiabank has a significant interest (a “Related Broker”). These Related Brokers may earn commission or spreads on such transactions, which are made on terms and conditions that are comparable to transactions made with non-related brokers.

During the period, the Fund paid \$1,000 in commissions to Related Brokers.

Distribution Services

Certain registered dealers through which units of the Fund are distributed are related parties to the Fund and the Manager. The Manager may pay a trailing commission, which is negotiated with dealers, to dealers for their financial advisors in respect of the assets of their clients invested in securities of the Fund. The Manager may also pay trailing commissions to dealers for securities purchased or held through discount brokerage accounts.

Other Fees

The Manager, or its affiliates, may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, foreign exchange or derivatives transactions. The Manager, or its affiliates, may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies.

Independent Review Committee

The Manager has established an independent review committee (the “IRC”) in accordance with National Instrument 81-107 – Independent Review Committee for Investment Funds (“NI 81-107”) with a mandate to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Fund. The IRC is responsible for overseeing the Manager’s decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107.

The IRC may also approve certain mergers between the Fund and other funds, and any change of the auditor of the Fund. Subject to any corporate and securities law requirements, no securityholder approval will be obtained in such circumstances, but you will be sent a written notice at least 60 days before the effective date of any such transaction or change of auditor. In certain circumstances, securityholder approval may be required to approve certain mergers.

The IRC has five members, Carol S. Perry (Chair), Stephen J. Griggs, Simon Hitzig, Heather A. T. Hunter and Jennifer L. Witterick, each of whom is independent of the Manager.

The IRC prepares and files a report to the securityholders each fiscal year that describes the IRC and its activities for securityholders as well as contains a complete list of the standing instructions. These standing instructions enable the Manager to act in a particular conflict of interest matter on a continuing basis provided the Manager complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter. This report to the securityholders is available on the Manager’s website or, at no cost, by contacting the Manager.

The compensation and other reasonable expenses of the IRC will be paid out of the assets of the Fund as well as out of the assets of the other investment funds for which the IRC may act as the independent review committee. The main components of compensation are an annual retainer and a fee for each committee meeting attended. The chair of the IRC is entitled to an additional fee. Expenses of the IRC may include premiums for insurance coverage, travel expenses and reasonable out-of-pocket expenses.

The Manager, in respect of the Fund, received the following standing instructions from the IRC with respect to related party transactions:

- Paying brokerage commissions and spreads to a related party for effecting security transactions on an agency and principal basis on behalf of the Fund;
- Purchases or sales of securities of an issuer from or to another investment fund managed by the Manager;
- Investments in the securities of issuers for which a related underwriter acted as an underwriter during the distribution of such securities and the 60-day period following the completion of such distribution;

- Executing foreign exchange transactions with a related party on behalf of the Fund;
- Purchases of securities of a related party;
- Entering into over-the-counter derivatives on behalf of the Fund with a related party;
- Outsourcing products and services to related parties which can be charged to the Fund;
- Acquisition of prohibited securities as defined by securities regulations;
- Trading in mortgages with a related party.

The Manager is required to advise the IRC of any breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to a related party transaction: (a) is made by the

Manager free from any influence by an entity related to the Manager and without taking into account any consideration to any associate or affiliate of the Manager; (b) represents the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; and (c) is made in compliance with the Manager's written policies and procedures. Transactions made by the Manager under the standing instructions are subsequently reviewed by the IRC to monitor compliance.

The Manager, in respect of the Fund, relied on IRC standing instructions regarding related party transactions during the period.

Financial Highlights

The following tables show selected key financial information about each series of the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information on the following tables is based on prescribed regulations and as a result, is not expected to add across due to the increase (decrease) in net assets from operations being based on average units outstanding during the period and all other numbers being based on actual units outstanding at the relevant point in time. Footnotes for the tables are found at the end of the Financial Highlights section.

The Fund's Net Assets per Unit (\$) ⁽¹⁾

For the period ended	Increase (decrease) from operations						Distributions					Net Assets, end of period ⁽¹⁾
	Net Assets, beginning of period	Total revenue	Total expenses	Realized gains (losses) for the period	Unrealized gains (losses) for the period	Total increase (decrease) from operations ⁽²⁾	From net investment income (excluding dividends)	From dividends	From capital gains	Return of capital	Total distributions ⁽³⁾	
Series A												
June 30, 2020*	10.00	0.57	(0.49)	(0.35)	0.33	0.06	(0.02)	–	(0.02)	(0.33)	(0.37)	9.70
* The start date for Series A units was August 6, 2019.												
Series F												
June 30, 2020*	10.00	0.65	(0.45)	(0.39)	0.58	0.39	(0.09)	–	(0.02)	(0.36)	(0.47)	9.69
* The start date for Series F units was August 6, 2019.												
Series O												
June 30, 2020*	10.00	0.51	(0.27)	(0.40)	(0.04)	(0.20)	(0.16)	–	(0.02)	–	(0.18)	10.08
* The start date for Series O units was August 6, 2019.												

(1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements may differ from the net asset value per unit. An explanation of these differences can be found in note 2 of the Fund's financial statements. The net asset value per unit at the end of the period is disclosed in Ratios and Supplemental Data.

(2) Net assets per unit and distributions per unit are based on the actual number of units outstanding for the relevant series at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding for the relevant series over the period.

(3) Distributions were paid in cash or reinvested in additional units of the Fund.

Ratios and Supplemental Data

As at	Total net asset value (in \$000s) ⁽¹⁾	Number of units outstanding ⁽¹⁾	Management expense ratio ("MER") (%) ⁽²⁾	MER before waivers or absorptions (%) ⁽²⁾	Trading expense ratio ("TER") (%) ⁽³⁾	Portfolio turnover rate (%) ⁽⁴⁾	Net asset value per unit (\$)
Series A							
June 30, 2020	4,903	505,309	2.09*	2.18*	0.61*	4,009.28	9.70
Series F							
June 30, 2020	47,990	4,952,048	1.02*	1.12*	0.61*	4,009.28	9.69
Series O							
June 30, 2020	1,460	144,862	0.06*	0.06*	0.61*	4,009.28	10.08

* Annualized

- (1) This information is provided as at the period end of the years shown.
- (2) The management expense ratio is based on the total expenses (including sales tax, and excluding commissions and other portfolio transaction costs) of each series of the Fund and a proportional share of underlying funds' expenses (mutual funds, ETFs and closed-end funds), where applicable, for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs, short borrowing costs and interest on leverage of the Fund and the underlying funds, where applicable, expressed as an annualized percentage of daily average net asset value of the Fund during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fee

The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and calculated and paid monthly. The management fees cover the costs of managing the Fund, arranging for investment analysis, recommendations and investment decision making for the Fund, arranging for distribution of the Fund, marketing and promotion of the Fund and providing or arranging for other services.

The breakdown of services received in consideration of management fees for each series, as a percentage of the management fees, are as follows:

	Management fees (%)	Dealer compensation (%)	Other [†] (%)
Series A	1.80	—	100.0
Series F	0.80	—	100.0
Series O*	—	—	—

* The management fee for this series is negotiated and paid directly by these unitholders and not by the Fund.

† Relates to all services provided by the Manager described above except dealer compensation.

Past Performance

In accordance with National Instrument 81-106, past performance and annual return data is not disclosed as the Fund has been a reporting issuer for less than a year.

Summary of Investment Portfolio

The Summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly portfolio update is available to the investor at no cost by calling 1-800-268-8186, or by visiting www.dynamic.ca, 60 days after quarter end, except for June 30, which is the fiscal year end, when they are available after 90 days.

By Asset Type	Percentage of net asset value [†]
Long Positions	
Bonds & Debentures	323.1
Cash and Short Term Instruments (Bank Overdraft)	56.3
Other Net Assets (Liabilities)	-4.7
Total Long Positions	374.7
Short Positions	
Bonds & Debentures	-273.1
Equities	-1.6
Total Short Positions	-274.7

By Country / Region ⁽¹⁾	Percentage of net asset value [†]
Long Positions	
Canada	300.8
Cash and Short Term Instruments (Bank Overdraft)	56.3
United States	22.3
Short Positions	
Canada	-262.7
United States	-12.0

Top 25 Holdings	Percentage of net asset value [†]
Long Positions	
Cash and Short Term Instruments (Bank Overdraft)	56.3
Pembina Pipeline Corporation, 2.99% Jan. 22 24	12.4
Enbridge Inc., 2.44% Jun. 02 25	10.5
Gibson Energy Inc., 5.25% Jul. 15 24	9.3
Bell Canada, 3.15% Sep. 29 21	9.1
Toronto-Dominion Bank (The), 2.621% Dec. 22 21	8.8
Wells Fargo & Company, 3.184% Feb. 08 24	8.6
Royal Bank of Canada, 2.352% Jul. 02 24	8.1
Bank of Montreal, 2.85% Mar. 06 24	8.0
Intact Financial Corporation, 4.70% Aug. 18 21	7.7
Bank of Nova Scotia (The), 2.38% May 01 23	7.3
CARDS II Trust, 2.427% Nov. 15 24, Class "A", Series 2019-2	7.1
Wells Fargo & Company, 2.094% Apr. 25 22	6.0
Crombie Real Estate Investment Trust, 3.962% Jun. 01 21, Series "B"	5.7
OMERS Realty Corporation, 3.358% Jun. 05 23	5.7
Royal Bank of Canada, 3.296% Sep. 26 23	5.7
Iron Mountain Canada Operations ULC, 5.375% Sep. 15 23	5.5
Bank of Montreal, 2.37% Feb. 03 25	5.4
Gibson Energy Inc., 2.45% Jul. 14 25	5.1
Metropolitan Life Global Funding I, 3.107% Apr. 16 21	4.9
Bank of Nova Scotia (The), 1.90% Dec. 02 21	4.9
AltaGas Ltd., 2.157% Jun. 10 25	4.6
Manulife Bank of Canada, 1.504% Jun. 25 25	4.5
Saputo Inc., 2.876% Nov. 19 24	4.3
TriSummit Utilities Inc., 3.15% Apr. 06 26	4.2

Top 25 Holdings	Percentage of net asset value [†]
Short Positions	
TMX Group Limited, 3.779% Jun. 05 28, Series "E"	-1.1
Government of Canada, 1.50% Jun. 01 26	-1.4
United States Treasury, 1.375% Oct. 15 22	-1.6
United States Treasury, 2.875% May 15 49	-1.7
Suncor Energy Inc., 4.34% Sep. 13 46	-1.7
Laurentian Bank of Canada, 4.25% Jun. 22 27	-2.0
Canadian Imperial Bank of Commerce, 3.45% Apr. 04 23	-2.5
United States Treasury, 2.00% Nov. 30 22	-2.9
National Bank of Canada, 3.183% Feb. 01 28	-3.0
Government of Canada, 1.75% Mar. 01 23	-3.6
Government of Canada, 1.50% Sep. 01 24	-4.1
FortisBC Energy Inc., 2.58% Apr. 08 26	-4.2
United States Treasury, 1.75% Apr. 30 22	-4.9
Government of Canada, 1.25% Mar. 01 25	-7.1
Government of Canada, 0.50%, Sep. 01 25	-8.9
Government of Canada, 2.25% Mar. 01 24	-9.0
Government of Canada, 1.00% Jun. 01 27	-10.6
Government of Canada, 2.75% Jun. 01 22	-11.7
Government of Canada, 0.50% Mar. 01 22	-13.9
Government of Canada, 1.00% Sep. 01 22	-14.3
Government of Canada, 0.75% Sep. 01 21	-22.5
Government of Canada, 2.25% Jun. 01 25	-24.4
Government of Canada, 2.00% Sep. 01 23	-25.1
Government of Canada, 2.50% Jun. 01 24	-39.6
Government of Canada, 1.50% Jun. 01 23	-45.2

(1) Excludes other net assets (liabilities) and derivatives.

† Based on the net asset value, therefore, weightings presented in the Schedule of Investments may differ from the ones disclosed above.