Dynamic Global Dividend Fund

Q4 2023 Commentary

Market Overview

Many had the view that there had to be a recession; it was an incredible consensus. We now know that broadly that was not true. I would call that the most important takeaway. Another important takeaway is that after living through 2022, where some of the large index names did very poorly, many investors decided that it was okay to not own them. We think it's very important to keep an open mind about the companies that are big index weights. The Apples, Microsofts, and Nvidias, were all helpful for our funds' performance last year. The message I want to convey is that companies that are household names might be perfectly good investment ideas. Don't dismiss an idea because it's a prominent company.

Another takeaway from 2023, is a growing confidence we have, that we are in a secular bull market. That's not to say that there won't be cyclical bears from time to time, there always are. But when I say it's a secular bull, I mean it's like 1946 through 1966 and 1982 through 2000. You have an environment where large caps are beating small caps, the U.S. is outperforming international markets, and equities are beating commodities. These are normal facets of a secular bull market and are reasons to be positive. They also require a change in how we manage money. I remember that in the 80s and 90s, one had to be very cognizant of the largest companies in the market. The Microsofts of the market did not become the largest companies by underperforming. In the secular bear market of the 2000s, our focus was on smaller companies and we're still going to look for opportunities there, but we need to understand that large cap outperformance - outperformance of companies that are topics of discussion around the dinner table, is a facet of secular bull markets, and that seems confirmed. It's a real reason to be positive, but just because we're positive, it doesn't mean we can approach it with the same strategy as a range bound market. We cannot.

We are frequently bullish. We are not perma-bulls though. As you know in the first half of 2022, things were not going well in the markets, just like they weren't going well in Q4 of 2018, the third quarter of 2011, 2008, etc. When we have information that says we should be concerned, we're concerned and we're defensive. But we are bullish based upon what we are seeing today. We are seeing a lot of pattern recognition for the 1994-95 period. Many of you may recall that in 1994, the rates market priced in 200 basis points of additional rate hikes that the U.S. Federal Reserve (The Fed/Fed) did not do. Then as 1994 unfolded, you had the Orange County situation and the second Mexican default, and the Fed had to move to the sidelines, and then ultimately cut. In 1995 the market took off, and on top of that there was a change in leadership in the market, because the Fed was moving into cutting from tightening. It feels very much like that is what is happening today. It overlays nicely and I think it's very difficult to be bearish against that backdrop. There's always geopolitical risk and there are things that can come straight out of left field, but I think those would be interruptions in a cycle.

When we look for excesses for reasons to be bearish, there's very few of them, though I do think we have to be selective. We are hearing there's 90 days inventory of electric cars in the U.S. So, we take a relatively dim view of electric cars because most consumers don't want them. But there isn't a lot of inventory of other kinds of cars and trucks. The housing market has been very slow, while household formation has continued. Housing and autos are two of the big areas that are not in the service sector, and the service sector tends to be not very cyclical, because so much of it comes from health care. When we look at the parts of the economy that tend to be variable, those parts of the economy aren't suffering from excessive inventory. Also, gasoline prices are still down year over year, and other than in 2020, we have not had a recession with the gasoline price down. That's a dividend to the consumer. So we're bullish, but we're paid to worry. We're always worried about risks, but the balance of probabilities says we should be optimistic.

Positioning

We are very oriented towards cyclicals as opposed to defensives. We are warming up to health care. But, when I talked earlier about the shift from secular bear to secular bull, we went back and looked at the way the so-called defensives, (staples, health care, utilities, telecoms, REITs) acted during the secular bull from 1982 to 2000. I wish we had the data to see what happened between 1946 and 1966 because a lot of the good data doesn't go back prior to 1960. In looking at the time period we could, we noticed the defensives didn't necessarily act like they were defensive in that secular bull market environment. So, that's something we're keeping in mind. I want to make it clear that we love cyclicals in this environment, but going to defensives may not have the same attraction as it used to, because I think it’s kind of a recency bias that investors expect that staples will provide ballast like they did in the 2000s, or that health care will provide ballast. They traded like risk assets in the prior secular bull market. That doesn't mean that they can't outperform, it just means they don't necessarily hold up better when the market falls. So, we have less emphasis on defensives. I think that cash is one of the last things we have left to us that is defensive, given the performance we've seen of the traditional defensive equities during the corrections of the last two or three years.

At the end of 2023, the Fund was overweight the Information Technology (IT) and Industrials sectors. Starting with IT, if you're bullish on the market, and it's the largest sector within the market by a wide margin, one really needs to understand that the sector has to at least market perform. IT is over 22% of the MSCI World index, and it's nearly 30% of the S&P 500 index. Statistically, it needs to at least go sideways for the market to go up. We believe investors should at least consider being market weight the IT sector. I think it was a rising tide in 2023 and that things will be more selective within the sector in 2024. To some extent, we've taken our exposure down in our portfolios. The sector had a very strong run last year, and that doesn't mean it can’t keep going, but perhaps not with as much juice.

Industrials are very interesting because they're a sector that has been asserting itself, (albeit in fits and starts), but it asserted itself over the balance of 2023, and that was after years of underperforming the market. We had the industrial recession/trade war going on in 2017, 2018, and 2019. As a result, it has created a lot of pent-up demand for capital goods. First and foremost, we like companies in the commercial aerospace area. The average commercial aircraft has never been this old. We like companies that are exposed to the value chain for producing aircraft, and we tried to steer away from where there's been pain. Pratt and Whitney has quality problems and Boeing has quality problems. Another area of importance is electrical. Eaton Corporation PLC is an example of a company in that area. Not only do you have all that pent up capital spending, but it's also the nearshoring, as production is moved back to North America from Asia, and that appears to be happening very aggressively right now. The growth in investment in new property, plant, and equipment in the United States right now is explosive. On top of that you have electrification with this drive, as some people are installing alternative energy, and some people are installing charging stations, but you definitely have the electricity going to data centers. Those are some of the highlights within the Industrials sector.

The area that the most change has taken place in terms of our fund weightings, is that our financials have moved up to a 15% which is about benchmark weight. As the Fed is slowly moving to the sidelines, we looked historically to see what has happened. Earlier in my career when the Fed moved to the sidelines at the end of 1994, the banks were sitting with huge losses in their loan portfolios because of the duration risk. When the Fed stepped to the sidelines, they no longer had those huge losses on their loan portfolios on a mark-to-market basis, as the rate market cooled down. As I mentioned, it wasn't just the cuts. The market had priced in 200 basis points more hikes than were made. As that pressure came off the banks, they were able to lend money and they were able to grow in 1995. Many have probably seen the way that a backlog is built up in issuance of new corporate bonds and a backlog was built up in terms of IPOs. Investment banking is an industry that has very easy comparisons in 2024 on 2023. A company we would highlight there would be JP Morgan. We are also quite positive about Progressive Corp. and about the pricing cycle on personal lines. The really big change has been with the Fed moving to the sidelines, there is an opportunity in the capital markets banks, and in the universal banks, to take advantage of asset growth.

Last year was very difficult for healthcare. In fact, I would say that last year is almost without precedent in the sense that it's the kind of healthcare underperformance we would have seen in the past if a Hillary Clinton or a Bernie Sanders was gunning for healthcare. But that didn't happen last year. I think the situation with healthcare was a response to how growth performed relative to expectations. Also, there was a lot of concern about Eli Lily and Novo Nordisk’s therapies and their impact on other companies. There were a lot of outflows from Health Care sector funds, and it's one of the three best performing industries of all time. We've been adding to that sector. We have been very happy with our Eli Lily and Novo Nordisk positions.

We also like the device space. They have some very interesting innovations, particularly in cardiac care. I would say watch this space. Healthcare contains a lot of companies that are benefiting from the changing demographics of the world, and some of the new therapeutic opportunities that have been created. The sector didn't become the third best performing industry of all time by underperforming. Unless it's different this time, expect to see us increase our exposure as we continue to feed winners, and find new ideas as they come into play within healthcare.

We're optimistic. We're near our fully invested limits. I think the future is very positive. What we don't know, but what we believe to be the case, is that active management will be rewarded and that's a belief system. But, as we see what's going on within the market, we're seeing positive indications of that being the case.

Performance

For the fourth quarter of 2023, Dynamic Global Dividend Fund (“Fund”) underperformed its benchmark. The series F units of the Fund returned 6.4% while the MSCI World Index (C$) returned 8.8%.

The primary reason for the underperformance during the quarter was stock selection in the Financials sector. The Fund’s Financials holdings were positive contributors to performance but underperformed those of the benchmark. Fund holding Marsh & McClennan was among the Fund’s top ten stock detractors from performance. The position had been exited by period end. There were no notable Financials stocks that detracted from benchmark performance. Stock selection in the Industrials sector was also a key detractor from relative performance. Again, the Fund’s Industrials holdings were positive contributors to performance. Two Industrials sector stocks including long-time holding (and positive long-term contributor), Schweiter Technologies Inc., were among the Fund’s key detractors from performance. Due in part to the very small weighting, none of the benchmark’s main stock detractors were from the sector. The three biggest stock detractors from Fund performance were long-time holding Strauss Group Ltd., Exxon Mobil Corp., and Caterpillar Inc. Of those, only Strauss Group remained in the Fund at period end.

Overweight exposure and stock selection in the Information Technology sector was the key positive for relative performance. Five of the top ten stock contributors to Fund performance, including top contributor Microsoft, were from the sector. Along with Microsoft, the other two top stock contributors to performance were Lululemon Athletica Inc. and Meta Platforms Inc.

From a regional standpoint, U.S. holdings were by far, the biggest contributors to performance. None of the other countries where positions were held, were notable contributors or detractors from performance.

Annualized returns as of December 31, 2023	1 Year	3 Year	5 Year	10 Year	SI
Dynamic Global Dividend Fund Sr. F	4.8%	0.0%	7.3%	9.9%	8.0%

Dynamic Global Dividend Fund Series F inception date: March 2006

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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.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. 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. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Views expressed regarding a particular company, security, industry or market sector are the views of the writer and should not be considered an indication of trading intent of any investment funds managed by 1832 Asset Management L.P. These views should not be considered investment advice nor should they be considered a recommendation to buy or sell. These views are subject to change at any time based upon markets and other conditions, and we disclaim any responsibility to update such views.