Dynamic Global Dividend Fund

Q3 2023 Commentary

Market Overview

We're optimistic. The most important macro factor for us, is the rate of change of wholesale gasoline prices in the United States. If we look at the last sixty years, there's only been one recession, (2020), where the wholesale prices of gasoline did not double in the year prior to the recession. It's difficult for Canadians to recognize this because we benefit from higher commodity prices, but for most of the world, commodities are a tax on the consumer. Gasoline prices are up modestly year over year but are nowhere near a 100% rate of change. Based upon the last sixty years of data, and unless there's another COVID lock down, or an equivalent, it would be without precedent to have a recession in the next twelve months. That's important because it's difficult to enter a bear market without a recession. They do happen from time to time and are short and shallow. The market recovers quickly when you get a non-recessionary bear market. I would argue there may have been one last year. But by the same token, you had two quarters of negative GDP growth last year. You have several quarters of negative gross domestic income, the gap between gross domestic income and GDP was the greatest ever, and the amounts of negative GDI were consistent with a recession. Some would argue where we lie within a market cycle is perhaps 6 to 12 months into an economic recovery, with a recession having taken place in the first half of last year. Pencilling a recession for 2023 is very difficult because Boeing being closed last year took half a percent off U.S. GDP. Boeing has reopened. In order to lose that half a percent of GDP, another 737 Max needs to get concrete poisoning. We can't predict that, but that's half a percent of GDP. The reduction in the primary deficit represents the second largest austerity program in American history, with only the 1946 austerity program being bigger. The additional government spending is going to be another positive contributor to U.S. GDP. The inventory drawdown last year was almost the largest ever. We only saw a larger spike in inventory liquidation after 9/11 and after the Lehman Brothers collapse.

Anyone who thinks inventory is going to detract from GDP again is predicting another 9/11 or Lehman Brothers type of event. Therefore, we believe the U.S. GDP numbers will evolve positively into the second half of the year. I would add that even if something really spikes the gasoline price, it'll start a timer or create a potential issue for next year. But right now, there isn't any indication of that.

Looking at China, there's some debate about whether they are the second largest economy. They were in lockdown last year, and they're now comparing against that this year. We believe that Europe is probably relatively flat year over year. Last year turned out to be better than we expected. This year, they appear to be slowing. We don't see how you can pencil in negative GDP growth year over year in the second half based upon the major economies in the world.

Regarding the stock market, every correction has been preceded by a change in credit spreads of two standard deviations from trend, and credit spreads have been compressing recently. The market can go down 9.9% just because, but to get an actual correction, credit has to come unglued, and the credit markets are solid. Look at what we've gone through already. Credit Suisse is no longer an issue. The U.S. regional banks are on life support, but unless the Fed cuts that life support, they aren't the source of further issues. I'd argue they're being financed by the Fed; it could pull some of the strength out of low-income households and small and medium sized enterprises and commercial real estate. But those parts of the economy are also part of the overhang from slightly improved gasoline prices. Most of the economy is in the service sector and large corporates. 40% of all personal consumption expenses are from the top decile of the income distribution. The top 10% spends 40%. They have all the cash and are receiving record amounts of interest on their cash. Their household income is solid. All the personal consumption contraction that occurs during a recession comes from the top decile of households.

Unless we have an exogenous event where the Fed is forced to cut interest rates, we should expect to see spending continue.

We are optimistic and are near our fully invested level for the Fund. We have the lowest weights we will tolerate in defensive industries.

Positioning

Our Energy weight is substantially higher than it was after we moved to the sidelines at the beginning of the year. The Fund’s Health Care weight is down significantly. Eli Lilly and Novo Nordisk are the two highest weighted stocks from the sector. There's no question when we're presently looking at the U.S. Bank Index going back to the lows from when Silicon Valley Bank failed, that that's not a good backdrop for financial services. The biggest gift we've had within Financials is with Visa and MasterCard getting moved into to the sector from Information Technology because they would have been two of our largest technology weights at the beginning of the year. No one can raise venture capital right now and there's no new money going into Fintech. We don't see much chance of disruption of Visa and MasterCard. They have literally gotten through the difficult period and survived. Yes, rates have gone up and the impact on the market value of long-term securities and the long-term mortgages of the banks had been an overhang on the banking system, but higher rates have benefited the property casualty industry. We like Berkshire Hathaway in that area.

I can foresee that as the U.S. moderates interest rate increases the U.S. dollar can weaken. The data shows that when the U.S. dollar weakens, the U.S. outperforms. It is counterintuitive, but the data is the data. We have much higher U.S. weights than we had early cycle coming out of October 2022. From a sector point of view, there's been some change in leadership. Industrials have reasserted themselves very nicely since the lows of last year, and they had underperformed in 2010. I think that created a lot of pent-up demand. A lot of that is around longer cycle industries where there has been underinvestment. Due to Boeing being closed, the average aircraft got very old. That's a great opportunity for Airbus. There is probably bigger upside with Boeing, but they have a balance sheet that you wouldn’t wish upon your worst enemy. So, if anything goes wrong, we're conservative. We own Airbus because it has a net cash position. That is an underinvested industry.

Energy had a break in the first half of the year. It wasn't surprising because last year energy doubled as a percentage of the S&P 500. Every industry that has ever doubled in 12 months has then taken a break. It's now reasserting itself. We're seeing the leadership in the picks and shovels. Names we like include Schlumberger. and Baker Hughes. On the E&P side, we like some of the domestic U.S. producers that have a good existing inventory. They should have a lot of leverage to a higher commodity price. The laggards are broadly the integrated companies.

Performance

For the third quarter of 2023, Dynamic Global Dividend Fund (“Fund”) underperformed its benchmark. The series F units of the Fund returned -2.7% while the MSCI World Index (C$) returned -1.3%.

The primary reason for the underperformance during the quarter was stock selection in the Information Technology (IT) sector. The three largest stock detractors were all from the IT sector. Two of the three stocks, Apple, and Microsoft were the top two stock detractors from benchmark performance for the quarter. The third, Halma PLC is held by the index, but in such a small weighting that it was not a notable detractor from performance. Each of the three holdings remained in the Portfolio at period end. The top three sector detractors from Fund absolute performance were Information Technology, Consumer Discretionary, and Industrials.

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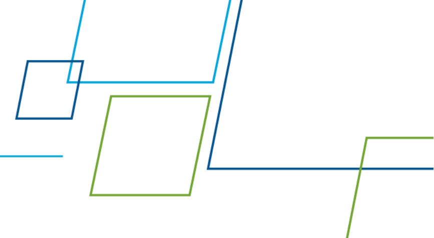

Stock selection in the Communication Services sector was the key positive for relative performance. Two of the top five stock contributors to Fund performance, including top contributor Alphabet Inc., were from the sector. The A and C class versions of the stock were the top two contributors to benchmark performance. The top three sector contributors to Fund absolute performance were Communication Services, Energy, and Financials.

From a regional standpoint, Novo-Nordisk which is headquartered in Denmark, and was the Fund's only holding from that country, caused Denmark to be the region that made the largest contribution to Fund performance. Companies from the United States were the largest detractors from performance.

Annualized returns as of September 30, 2023	1 Year	3 Year	5 Year	10 Year	SI
Dynamic Global Dividend Fund Sr. F	2.8%	-0.9%	4.2%	10.6%	7.7%

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.

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