

CHATTER FROM THE INSTITUTIONAL DESK

DYNAMIC AURION FIXED INCOME

October 2017

Dynamic Aurion Total Return Bond Fund / Dynamic Tactical Bond Private Pool

Canadian bond yields rose an average of 30 bps this month, as geopolitical tensions eased somewhat, and the overall risk tone improved. The Bank of Canada raised policy rates again this month, surprising the market with the timing of the hike. This is the second rate hike in 3 months, and completely reverses the emergency rate cut done in 2015 following the oil shock. As the BoC noted in commentary following the second rate hike, the Canadian economy posted strong gains in the first half of this year, with the oil shock largely behind us. Going forward, the impact of higher bond yields, a stronger Canadian dollar, and a weaker housing market will create tighter financial conditions for the Canadian economy, and any future policy rate hikes will become more data dependant. We expect the data will begin to slow in the next few months, and expect the Boc will turn more cautious on policy hikes.

With Canadian yields near a 3 year high and the interest rate gap between Canadian and US yields almost flat, we have turned positive on the Canadian bond market and increased the duration of the fund. We believe this represents a good entry point for a tactical trade on Canadian bonds, as markets continue to price in further hikes by the BoC even as early indicators point to a slowing of momentum in the Canadian economy.

After leading growth among the G7 countries early this year, we anticipate Canadian growth will moderate, at the same time that the US growth outlook is poised to improve. US growth has disappointed year to date, but the potential for tax cuts and infrastructure spending following the devastating hurricanes could see growth in the US pick up at the same time growth in Canada slows. This will likely lead to a stronger USD, and we favour opportunities to reduce hedges on any remaining US exposures in the funds.

The fund performed well vs the benchmark this month, and continues to have a strong performance year to date, due in part to our ability to recognize and act during periods of inflection in the market. We believe this is another such opportunity and have moved into Canadian bonds over US bonds, will begin to remove currency hedges which have protected the fund year to date, and to look for opportunities in the credit markets which will benefit for a resurgence of growth in the US. Our modest US exposure is now exclusively IG corporate bonds, and our overall foreign content has declined dramatically as we have moved back into the Canadian government bond market. We have moved to take advantage of higher bond yields, as seen by the significant jump in the overall yield of the fund, but continue to be biased to higher quality credit markets, and a broadly diversified sector mix within the fund.

Allocation (%) • as of 09/30/2017						
Asset Class	Dynamic Aurion Total Return Bond Fund		Monthly Change	Dynamic Tactical Bond Private Pool		Monthly Change
Cash & FRNs	8.6		-1.2	11.1		-0.6
Federal Government Bonds	21.6		+1.6	22.2		+1.2
Provincial Government Bonds	23.3		-0.7	21.6		-0.7
RRBs & U.S. TIPS	0.0		-	0.0		-
Canadian Corporate Bonds	26.3		+0.2	25.5		-
Foreign Bonds & Debentures	19.5		+0.3	18.9		-0.1
High Yield Bonds (Foreign/Cdn)	0.7	0.0	-	0.7	0.0	-

Duration (Years)	7.3	+1.0	7.3	+1.0
Yield (%)	2.7	-	2.6	-0.1
Foreign (%)	20.2	+0.3	19.6	-0.1

Compounded Returns (%) • as of 09/30/2017									
	1mth	3mth	6mth	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Dynamic Aurion Total Return Bond Fund									
Series A	(1.12)	(0.98)	(0.26)	0.70	(2.53)	2.51	2.28	n/a	2.86
Quartile					2	1	2		
Series F	(1.09)	(0.78)	0.28	1.46	(1.60)	3.47	3.21	n/a	3.77
Quartile					2	1	1		
Inception date: August 31, 2010									
Dynamic Tactical Bond Private Pool									
Series F	(1.14)	(0.65)	0.13	1.24	(1.90)	n/a	n/a	n/a	1.84
Quartile					2				
Inception date: March 9, 2015									

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Series A units of the Fund are available for purchase to all investors, while Series F units are only available to investors in an eligible fee-based or wrap program with their dealer. 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.

The Morningstar quartile ranking reflects performance as of September 30, 2017 and is subject to change monthly. Morningstar is an independent organization that groups mutual funds with generally similar investment objectives for comparison purposes and ranks them on a historical basis. These rankings are broken into quarters or quartiles. Within a group, the top 25% (or quarter) of the funds are in the first quartile, the next 25% are in the second quartile, the next group in the third quartile, and the bottom 25% of funds with the poorest relative performance are in the fourth quartile. For more details on the calculation of Morningstar, see www.morningstar.ca.

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