Dynamic Active Credit Strategies Private Pool

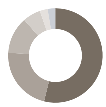
Fourth quarter commentary (as at December 31, 2018)

PERFORMANCE (%)

	YTD	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception date
Series A	Regulations restrict the presentation of performance figures until a Pool reaches its one-year anniversary								October 2018
Series F	-1.7	-2.6	-1.5	-1.7	3.6	–	–	1.6	June 2014
Blended Benchmark[1]	-1.9	-2.8	-1.6	-1.9	4.7	3.2	–	–	–

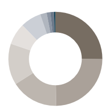
ASSET ALLOCATION (%)

High Yield Bonds	53.8
Investment Grade Bonds	22.1
Government Bonds	12.7
Preferred Shares	6.1
Cash, Short-Term Investments & Other Net Assets	2.7
Bank Loans	2.6



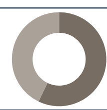
SECTOR ALLOCATION (%)

Communications	17.4
Energy	17.1
Financial	11.3
Consumer Cyclical	9.9
Utilities	5.2
Consumer Non-cyclical	4.9
Basic Materials	1.5
Industrial	0.9
Technology	0.9
Diversified Financial Services	0.3



GEOGRAPHIC ALLOCATION (%)

United States	57.2
Canada	42.8



TOP ISSUERS (%)

Canadian Oil Sands	3.1
Quebecor Media	2.4
Fairfax Financial	2.3
CCO Holdings	2.1
TransCanada	1.9
Lennar Corp	1.7
HCA	1.6
Aimia	1.6
CSC Holdings	1.6
Sprint	1.5
TOTAL	19.9

TOP 10 HOLDINGS (%)

iShares iBoxx $ High Yield Corporate Bond ETF	8.9
Enbridge Inc., 4.00%, Series "L"	0.6
Enbridge Inc., 4.887%, Series "J"	0.5
BlackRock Corporate High Yield Fund, Inc.	0.5
TransAlta Corporation, 5.00%, Series "E"	0.5
TransAlta Corporation, 4.60%, Series "C"	0.4
Enbridge Inc., 4.40%, Series 5	0.4
Vermilion Energy Inc.	0.1
TransAlta Corporation, 5.30%, Series "G"	0.1
Voya Prime Rate Trust	0.1
TOTAL	12.1

CREDIT QUALITY OF PORTFOLIO (%)

AAA	17.7	BB	28.5	C	0.0
AA	0.4	B	23.3	D	0.0
A	4.8	CCC	2.1		
BBB	21.4	CC	0.0		

[1] Blended benchmark is 1/3 FTSE TMX Canada All Corporate Bond Index & 2/3 Barclays High Yield Very Liquid Index (C$, hedged).

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Dynamic Active Credit Strategies Private Pool

MARC-ANDRÉ GAUDREAU

Marc-André Gaudreau and team combine a top-down and bottom-up investment process to actively select securities that offer investors the greatest potential for strong risk-adjusted returns. The team selects securities based upon their independent fundamental credit analysis, while employing a capital preservation philosophy that results in a well-diversified, liquid portfolio. The Pool's flexible mandate allows the manager to shift between different sub-classes of credit securities based upon his outlook for interest rates and credit markets. This allows the team to target higher yields and capital gains over the course of a credit cycle.

MANAGER COMMENTARY

It has been a busy final quarter of the year with lots of information for credit investors to digest. 2018 will likely be remembered as the year in which volatility returned to the markets after having been suppressed by central banks through various accommodative monetary programs for many years. Much like the year started with a volatility-induced selloff in Q1, the year ended with another spike in volatility in Q4 as investors increasingly question the Fed's pace of monetary tightening activities.

In our view, the dominant theme facing investors in 2019 will be the pace of the Federal Reserve's current hiking cycle and its balance sheet normalization activities. Just as "Quantitative Easing" expanded the Fed's balance sheet in recent years and lifted asset values, the current program to unwind the balance sheet or "Quantitative Tightening" has the potential to prick valuation bubbles. The big question facing investors as we start 2019 is will the current market selloff cause the Fed to blink or will they remain steadfast and data dependent in their efforts to tighten financial conditions? We believe that unlike previous Fed Chairs, Jerome Powell is less inclined to respond to market gyrations although we would be surprised if the rout experienced in Q4 is not causing some kind of reflection within the Fed.

The big impact of the Fed's tightening activities is that liquidity is being drained from financial markets. The lack of liquidity coupled with the growing influence of passive investing vehicles such as index ETFs has created an environment where increased volatility is the "new normal". In the absence of a pause in the Fed's program to tighten financial conditions, we expect this environment to persist through 2019.

Dynamic Active Credit Strategies Private Pool (series F) returned -2.6% in the fourth quarter, tracking its benchmark. For 2018, the fund returned -1.8%, tracking its benchmark as well. The Pool's negative absolute performance during the quarter was driven by an overall widening in credit spreads which was in-line with a sharp sell-off in risk assets more broadly. The Pool's positioning being skewed towards higher quality issuers helped to protect capital during sell-offs and outperformed lower quality and higher-beta issuers in the benchmark. The Pool was also underweight duration relative to its benchmark during the year which helped contribute to smoother returns in a rising rate environment.

During the quarter, we monetized several positions in the Pool that we viewed to be trading at expensive levels and rotated capital into high-quality issuers that were trading at significant discounts to par. While the sell-off experienced in the fourth quarter can be uncomfortable for investors, the reality is that during times of panic, pricing dislocations become more pronounced as "the good is thrown out with the bad" presenting new investment opportunities for patient investors. We are seeing those opportunities now as many high-quality issuers are attractively priced; in fact, many high yield issuers are now trading at levels we haven't seen in several years. Overall, the Pool's positioning remains skewed towards higher-quality issuers with strong balance sheets, stable cash flow, and potential credit-enhancing catalysts. At the end of the quarter, the yield-to-maturity of the Pool was 5.4% and interest rate duration of 4.6 years was significantly less than its reference benchmark of 5.5 years.

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