Dynamic Premium Bond Private Pool

Fourth quarter commentary (as at December 31, 2018)

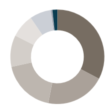
DYNAMIC private INVESTMENT POOLS

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	1.2	0.3	0.5	1.2	–	–	–	1.9	January 2016
Blended Benchmark[1]	1.8	0.2	0.0	1.8	2.3	4.9	–	–	–

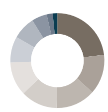
ASSET ALLOCATION (%)

Federal Govt Bonds - CDN	33.8
Corporate Bonds - CDN	21.1
Provincial Govt Bonds - CDN	19.1
Covered Puts	11.2
Foreign Bonds & Debentures	8.3
Common Stocks-US	7.5
Common Stocks-CDN	0.3
Mutual Funds - Foreign Equity	0.3
Common Stocks-Foreign	0.1
Cash, Short-Term Investments & Other Net Assets	-1.7



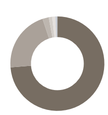
EQUITY SECTOR ALLOCATION (%)

Information Technology	4.4
Financials	2.6
Health Care	2.6
Communication Services	2.4
Consumer Discretionary	2.2
Industrials	1.7
Energy	1.5
Consumer Staples	1.0
Materials	0.4
Real Estate	0.3
Foreign Equity Funds	0.3



GEOGRAPHIC ALLOCATION (%)

Canada	75.0
United States	21.5
Pacific	2.2
Continental Europe	1.2
United Kingdom	1.1
Emerging Markets	0.7



ANALYTICS

	2 Yrs
Upside Capture	61.0
Downside Capture	49.2
Best 3 Months	2.3
Worst 3 Months	-1.4
Standard Deviation	2.2

TOP 10 EQUITY HOLDINGS (%)

Alphabet Inc., Class "A", Long Equities, Covered Puts	0.5
Netflix, Inc., Long Equities, Covered Puts	0.4
Citigroup Inc., Long Equities, Covered Puts	0.4
Canadian Natural Resources Limited, Long Equities, Covered Puts	0.4
NXP Semiconductors NV, Covered Puts	0.4
Bank of America Corporation, Long Equities, Covered Puts	0.4
Facebook, Inc., Class "A", Long Equities	0.3
Johnson & Johnson, Covered Puts	0.3
Walmart Inc., Covered Puts	0.3
Amazon.com, Inc., Long Equities, Covered Puts	0.3
TOTAL	3.7

TOP 10 BOND HOLDINGS (%)

Government of Canada, 2.25% Jun. 01 29	6.8
Government of Canada, 1.00% Jun. 01 27	3.9
Government of Canada, 2.00% Jun. 01 28	2.5
Government of Canada, 2.00% Dec. 01 51	2.3
Canada Housing Trust, 2.65% Dec. 15 28	1.9
Government of Canada, 2.00% Jun. 01 28	1.9
Province of Ontario, 2.90% Jun. 02 49	1.8
Government of Canada, 0.75% Aug. 01 19	1.8
Government of Canada, 1.50% Jun. 01 26	1.6
Province of Quebec, 2.75% Sep. 01 28	1.6
TOTAL	26.1

CREDIT QUALITY OF PORTFOLIO (%)

AAA	35.7	BBB+	4.8	A	1.4
A+	14.7	BBB	3.3	BBB-	1.2
AA-	11.1	AA	2.8		
A-	4.9	AA+	2.2		

[1] Blended benchmark is 80% FTSE TMX Canada Universe Bond Index, 10% CBOE S&P 500 BuyWrite Index (C$) and 10% CBOE S&P 500 PutWrite Index (C$).

Dynamic Funds® Invest with advice.

Dynamic Premium Bond Private Pool

DYNAMIC private INVESTMENT POOLS

MARKET COMMENTARY

Negative headlines and market volatility dominated the fourth quarter with most major indexes falling sharply in December. Sentiment swung from optimism about the synchronized global expansion in the first half of the year to worries about geopolitical instabilities, trade tensions between the world's two largest economies, concerns over Brexit and lower growth expectations as the year wrapped up. Canadian equities suffered mainly due to the collapse in oil prices as the S&P/TSX Composite Index fell 10.1% in the last quarter bringing total returns to -8.9% for the year. Of the major sectors which represent three-quarters of the index's market capitalization, Energy (-17.3%) and Financials (-11.3%) fell while Materials (+0.9%) had a modest gain.

The recent equity market weakness was broad-based and indiscriminate, global equities, as represented by the MSCI World Index (C$), returned -8.6% in the last quarter and finished slightly negative (-0.2%) for the year. US equities, represented by the S&P 500 Index had their worst quarterly (-13.5%) and 12-month performance (-4.4%) since 2008 in local currency, whereas Canadian investors enjoyed higher returns (-8.9% and +4.0% respectively) due to a strengthening US dollar. International and emerging markets also suffered losses in 2018 as the MSCI EAFE Index (C$) and the MSCI Emerging Markets Index (C$) returned -5.8% and -6.8% respectively.

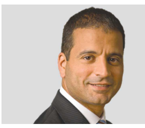
As expected when equities come under pressure, investors fled to safer asset classes. The Canadian bond market, represented by FTSE TMX Canada Universe Bond Index, gained 1.8% in the fourth quarter and finished a difficult year up 1.4%. Government bonds (+2.1%) outperformed corporate bonds (+0.9) over the final quarter. In contrast, high-yield bonds, represented by the Barclays U.S. High Yield Very Liquid Index (C$, Hedged) were out of favour returning -5.0% in the last quarter and finished the year down 3.5%.

The Canadian dollar continued its weakness, falling 8.2%, 5.1%, 3.8% and 3.2% for quarter and 10.2%, 8.0%, 3.6% and 2.7% for the year against the Japanese Yen, US dollar, Euro and British Pound respectively.

Dynamic Premium Bond Private Pool

Dynamic Active Core Bond Private Pool[4]

MICHAEL MCHUGH



DOMENIC BELLISSIMO

BILL KIM

DANIEL YUNGBLUT

Michael McHugh and team use a multi-strategy approach to manage the key risks in fixed income and achieve their goal of low volatility income. The four primary strategies the team uses are: duration management, sector allocations across government, credit, and inflation protection, fundamental credit selections and foreign currency hedging. These strategies are used to generate low volatility income and protect against interest rate risk, credit risk and foreign currency risk.

MANAGER COMMENTARY

The path of global yields began the quarter by diverging in October in response to regional economic conditions while geopolitical developments and broad weakness across global equity markets contributed to a rise in volatility. The tentative agreement on trade reached by the U.S. and Canada on September 30 resulted in a sharp increase in Canadian yields on the first trading day of October reflecting the removal of a potential economic headwind for Canada. As the quarter continued, concerns of a slowdown in global growth contributed to broad declines in global equity markets. The ensuing deterioration in investor sentiment contributed to a decline in global yields as investors sought the relative safety of government bonds. Negative sentiment remained entrenched in financial markets through to the end of December as growing concerns about the pace of global growth dominated positive trade developments between the U.S. and China and ongoing signs of strength in the U.S. economy.

During the quarter Pool duration was maintained as long-term yields declined into year-end. Credit exposure was modestly increased as credit spreads increased taking credit to 31.0%. The provincial weighting in the Pool was increased moderately to 33.7%. There were no material changes to the composition of the corporate bond holdings.

While investor sentiment has likely swung too negative, the magnitude and duration of the move in equity and bond markets suggest deep seated concerns about the sustainability of the current economic expansion. This is likely to pose significant challenges for retracements in equities and yields to reach their previous cyclical highs. This has led to a moderation of expectations for yield peaks in 2019. Longer-term yields have likely reached their cyclical peak in late 2018. While both central banks have indicated they will adopt a more patient approach to rate hikes, both still identify a neutral level for overnight rates to be at a higher level. Unless economic momentum begins to deteriorate and core inflation edges lower in the months ahead, markets risk underestimating the potential for additional rate hikes in 2019. The bond market is mispriced should economic conditions support the central banks pursuit of a higher neutral policy rate.

[4] The benchmark for Dynamic Active Core Bond Private Pool is the FTSE TMX Canada Universe Bond Index.

Dynamic Premium Bond Private Pool

Dynamic Tactical Bond Private Pool[3]

ROMAS BUDD

Romas Budd follows a balanced approach that blends both a top-down and bottom-up approach to selecting investments, with the goal of combining perspectives from a macroeconomic view and security selection to add value over the long term, while strictly controlling risk.

MANAGER COMMENTARY

With a weaker Canadian oil sector, a drop in business investment and concerns about a trade war driven global economic slowdown, the Bank of Canada is likely to remain on hold for some time. Canadian CPI recorded an annual increase of 1.7% in November, the slowest pace in 10 months as gasoline prices declined while core inflation declined to 1.9% YoY. The softer inflation data has significantly dampened market expectations for near term rate hikes while the weaker growth has started rumblings that the next move might be a cut from the BoC rather than a hike.

The Canadian yield curve shifted downwards in response to economic data and expectations of slowing rate hikes. The two-year yield decreased 35 basis points (bps), while the five, ten and 30-year yields declined 45 bps, 46 bps and 24 bps respectively. Corporate and provincial issues underperformed the market as credit spreads moved wider while federal bonds outperformed.

The U.S. has witnessed a similar story with slowing growth, declining inflation metrics and lower trade on the back of slower global economic growth and trade tariffs. Although U.S. employment remains robust, manufacturing output appears to be slowing which might weigh further on growth in the year ahead.

The Pool's net long duration exposure added in October had a positive impact on performance as yields declined. Curve positioning was a contributor to performance as the long end of the curve steepened. The Pool's underweight exposure to Provincial securities was a positive contributor to performance as spreads widened.

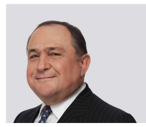
Even though investors may be expecting higher bond rates in 2019, management is positioned for the two-year bond bear market to at least hit the pause button. The global economy is being impacted by increased trade tensions and the end of very easy central bank policies. Inflation has likely peaked and will trend down into 2019. The Federal Reserve and the Bank of Canada are likely done or very close to finishing this recent rate-hiking cycle. Risk assets, including credit-based securities, are likely to underperform returns for the government bond market. A surprise for 2019 could be that returns for the bond market will trend better than most.

[3] The benchmark for Dynamic Tactical Bond Private Pool is the FTSE TMX Canada Universe Bond Index.

Dynamic Premium Bond Private Pool

Dynamic Premium Yield Fund[4]

DAMIAN HOANG



JOHN HARRIS

OSCAR BELAICHE

This covered options writing strategy provides a unique element of diversification to the Pool through its low correlation to bonds and interest rates. It offers U.S. equity exposure with reduced volatility and active hedging of equity and currency risk.

MANAGER COMMENTARY

The fourth quarter of 2018 was largely characterized by a wave of volatility that reverberated across global markets. North American equity markets ended the quarter down sharply, after reaching an all-time high in September, as concerns crept up on multiple fronts concurrently. Investors continued to digest rising interest rate trajectories from central banks, lingering trade tensions and rising expectations of a deteriorating global growth backdrop. In the U.S., equity markets slid despite solid corporate earnings growth as investor confidence remained battered over issues related to monetary tightening, credit spreads widening, and rocky U.S.-China trade negotiations. Energy stocks led the way lower, while Information Technology and Industrials sectors also detracted from returns. Meanwhile, less economically sensitive sectors like Utilities and Real Estate outperformed their peers during the quarter.

Over the period the exposure to long equities was unchanged while cash-covered puts saw a significant increase. The covered call writing strategy remained relatively small. On a sector basis the Fund was well diversified with exposure to Communication Services, Energy and Health Care increasing while Real Estate and Consumer Discretionary were lowered. At quarter-end Information Technology, Financials and Health Care represented the largest weightings in the portfolio. Information Technology, Health Care and Consumer Discretionary were the top sector detractors over the quarter with Utilities a positive contributor. As the pool has a U.S. focus, the currency is conservatively managed and by the end of the period the U.S. dollar exposure was almost fully hedged.

[4] The blended benchmark for Dynamic Premium Yield Fund is 50% CBOE S&P 500 BuyWrite Index (C$), 50% CBOE S&P 500 PutWrite Index (C$).

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