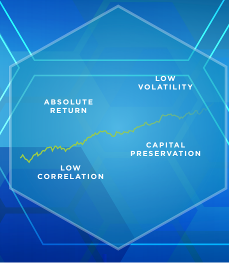
A NEW ERA OF ALPHA PERFORMANCE

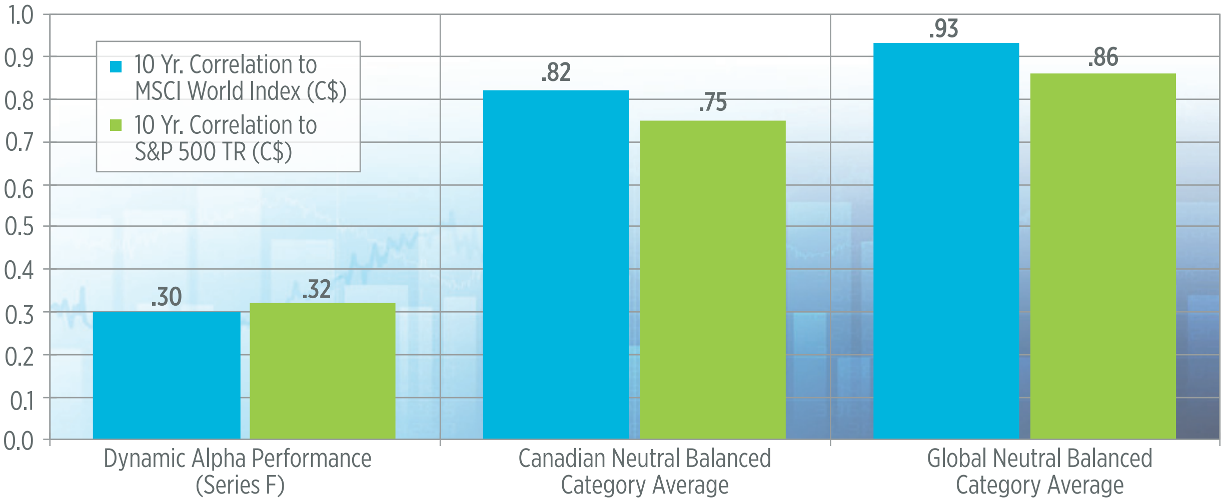


Dynamic Senior Portfolio Manager Noah Blackstein talks about the launch of Dynamic's new liquid alternative offering, Dynamic Alpha Performance II Fund.

For Dynamic Senior Portfolio Manager Noah Blackstein, the world of alternative investments is anything but new. While perhaps best known for his successful growth mandates, Dynamic Power American Growth Fund and Dynamic Power Global Growth Class, Noah has a 16-year track record in the alternative space. Since 2002, he's been successfully using alternative strategies in Dynamic Alpha Performance Fund, a conservative hedge fund that's delivered equity-like returns with less volatility and a lower correlation to stocks and bonds versus a traditional Canadian balanced fund (See Figure 1).

Last October, Noah ushered in a new era of alpha performance with Dynamic Alpha Performance II Fund, a liquid alternative version of Dynamic Alpha Performance Fund – now accessible to retail investors in a mutual fund structure. As equity markets become more volatile, Dynamic Alpha Performance II Fund looks to meet a critical need for investors looking for capital protection while still providing superior risk-adjusted returns. We recently spoke to Noah to discuss the strategy behind Dynamic Alpha Performance Fund and the newly launched Dynamic Alpha Performance II Fund.

Figure 1 – Correlation To Market Benchmarks
Dynamic Alpha Performance Fund vs peers 10 years ending May 2019



Source: Morningstar Direct. June 1, 2009 to May 31, 2019.

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Q: How would you describe Dynamic Alpha Performance II Fund?

It's essentially a long/short, global equity fund with an extensive track record – and better upside and less downside than the average Canadian Neutral or Global Neutral Balanced fund. In my view, it's a good replacement for the traditional Canadian balanced fund – especially as markets get trickier. Think of it as your "balanced fund alternative."

The underlying strategy has a legitimate and published 16-year track record; all we're doing is making the same strategy available to more investors – without minimum investment requirements. Until this point, the average investor didn't have access to these strategies.

Q: You said the strategy has a strong track record. Can you explain?

Sixteen years ago, there weren't really the tools on the mutual fund side to handle volatility overall, and yet there was clearly a whole class of investors who didn't want to see fluctuations in the value of their money.

In 2002, we launched Dynamic Alpha Performance Fund, a conservative hedge fund for accredited investors, which was designed to protect capital and generate consistent, low-volatility returns for investors. By actively managing the long, short and cash positions, the Fund was designed to generate positive returns, regardless of the overall direction of the market. The strategy has performed just as designed – for nearly 17 years.

The strategy isn't back-tested; we have a real track record on Dynamic Alpha Performance Fund. We managed this strategy through the 2008 crisis and some pretty significant periods of volatility. During the worst week ever in the history of the stock market (Oct 10, 2008), the Dynamic Alpha Performance Fund earned a positive return when major Canadian, U.S. and Global Indices were down 18% or more.

Currently, the introduction of the liquid alternatives category gives us the opportunity to continue managing that strategy – but in a widely available mutual fund structure.

Q: What's the key difference then between Dynamic Alpha Performance Fund and Dynamic Alpha Performance II Fund?

There's no difference in the investment style or strategy – the only difference is that the new fund is accessible to retail investors. Those alternative tools (i.e., short selling, absolute returns, leverage) were exclusive to the hedge fund world; now these tools are available to the average investor to better manage volatility. Alternative strategies give managers the flexibility and tools to be able to manage through market cycles; that's definitely what it's given me over the last 16 years.

Q: Will the focus on capital protection be the same with Dynamic Alpha Performance II Fund?

We're always focused on protecting the downside in this Portfolio, and Alpha II is managed exactly the same way. Because the strategy is uncorrelated to traditional assets, the downside capture is very low. The strategy has always been run very, very conservatively, which is reflected in the new Fund's low-to-medium risk rating.

Protecting capital remains a key priority for this Fund.

Q: What role does leverage play in the strategy?

We have always run the portfolio with significant cash balances. My philosophy is that leverage kills; a 10% decline at 3x leverage is a 30% decline; that's very difficult to hand investors in a conservative type of portfolio.

Q: How has the Dynamic Alpha Performance Fund performed versus a traditional balanced fund?

When you look at the 60-40 balanced fund, the Dynamic Alpha Performance Fund has done better in terms of returns and downside protection. The traditional balanced fund is now in a difficult period because stocks and bonds have become more correlated over the last 10 years.

Dynamic Alpha Performance II Fund is designed to meet this challenge by providing returns that are less correlated to traditional assets. The strategy aims to deliver high, single-digit returns with well-below-market volatility – and has experienced less volatility than the average 60/40 balanced fund.

Q: What should advisors be looking for in an alternative fund?

I think manager experience and a proven track record are critical. There's going to be a lot of alternative offerings out there, some with esoteric strategies that have only been back-tested. For some managers, these tools will be fairly new; so, investors need to consider this carefully. If you're going to stick a toe in the water, you should probably go with someone who is experienced in managing alternative strategies.

It's good to find an alternative fund that can protect capital; nothing can protect you in a traditional balanced fund if both stocks and bonds are going down. Your biggest risk is that your returns won't be as high as the overall market. That will be your downside... and that's the whole point of a well-constructed alternative fund.

Annualized Returns

As at May 31, 2019	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	3 Year Beta
Dynamic Alpha Performance – Series F	0.3%	4.6%	4.8%	5.6%	5.9%	0.10

Series F units are only available to investors who participate in eligible fee-based or wrap programs with their registered dealer. Commissions and trailing commissions are not payable on Series F units of the Fund but management fees and expenses may be associated with these investments. Data as at 05/31/2019. Series F inception date 01/06.
3 Year Beta as of 05/2019 (S&P/TSX Composite Total Return)

Source: Dynamic Funds

For more insights from Noah Blackstein, visit dynamic.ca/Noah

Customer Relations Centre

Toll free: 1-800-268-8186
Tel: 514-908-3212 (English)
514-908-3217 (French)
Fax: 416-363-4179 or 1-800-361-4768
Email: service@dynamic.ca

dynamic.ca

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