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The following are notes from a recent call with David Fingold. David is the Portfolio Manager on a number of different U.S. and Global Portfolios for Dynamic Funds. His comments relate to US and Global markets and companies.

Please give us your outlook and thoughts on this market?

- Met the definition of a bear market with major markets down over 20%
- Tremendous focus on Coronavirus, this is just one factor that has driven the markets down
- Other deterrents:
  - Oil prices cut in half
  - US dollar has gone straight up
  - Interest Rates
  - Impairment of factories in China
- Way forward – important for price of oil to stabilize, and not go down. No specific price, just stabilization and less volatility
- Markets need this to find a way forward, and the volatility in oil prices effects the banking system
  - When people lose their jobs in Energy, we see less spending, shopping, disposable income and in turn, mortgage defaults
- There is some good news with oil, as it looks like the US, Russia & Saudi Arabia are having discussions on the oil market
- Another major market factor has been the collapse in interest rates
  - We took the curve, shifted it down, flattened it and now the curve in the US looks like Europe
    1. This craters the repeatable return on tangible assets for banks and makes the life insurance industry almost insolvent
    2. Book value is now not a floor under valuations, but rather a ceiling
  - Key to note, this has been terrible for Banks & Energy, but has already happened and is behind us
- You can make things 20% cheaper in Mexico versus China, 30% cheaper in Vietnam and 40% cheaper in the Philippines, and we think they will take over China's manufactured goods markets.
- Central bankers have stepped in and provided liquidity to the market
  - We don't know when they will come in and buy corporates – this will compress spreads and push income investors into high-yield and this should provide a bid in the market
- There has been a spike in unemployment, this will most likely will be labelled a recession

- We have seen signs of stability in credit markets and have put cash to back to work
- We are not happy that spreads have widened over the last couple of days – but we continue to watch this very closely
    - If spreads widen further, we will not hesitate to raise the cash level in our funds.
    - If credit is being taken out of the market, stocks get hit and if money goes into credit markets, it provides a boost for the equity market
    - We are always watching credit, as this is a leading indicator and drives major markets
- Need to see stabilization of interest rates and oil to continue to drive credit and see less volatility in that market

What is Your Outlook on Energy?

- Relative performance of Energy versus S&P 500 has been terrible
    - This sector can provide opportunity from time to time
    - Every 20 years there is a 5 year uptrend in this space and we will take advantage, but it is a trade
- Next upcycle may be closer to 2026 - 2032
    - If we see a producer with production and reserve growth we may look to buy, but nothing meets our investment criteria here at the moment
- Energy has lost a significant amount of market value over the last 50 years – 70% of its value
- The sector was 10% of S&P 500 in 1970 and 3% now
    - Telecommunication was the last sector to do that, and it no longer exists – merged in with media and social media companies – the new communications sector
    - We think it is possible that the Energy and Utilities sectors could merge

What is the updated cash balance in your Funds?

- We have seen signs of stability in credit markets and have put some cash back to work
    - Dynamic Global Asset Allocation Fund's equity low was 43%, now at 50% equities
    - The Global Dividend Fund was at approx. 33% cash, now at 26% cash
    - The Dynamic American Fund and Dynamic Global Discovery Fund were at over 20% cash and are now sitting at around 18% cash.

Why did you exit the Financials sector?

- When the curve steepened in the 4th quarter of 2019 there was an opportunity
- Curve flattened into January and we watched this and exited our holdings in the Financials sector.

- Banks have been a tough investment over time – and have lost significant market value in the index over the years
- We are looking closely at whether we want to own banks again (US or Global)
- They can have a few months of good relative performance, like an escalator up and then elevator down
- We do own MSCI
  - It's a great place to get all the data –customers don't have a choice – customers need this data and it is the largest portfolio of data used by asset managers
    1. More portfolio managers are indexers, closet indexers, and even active managers need to buy index data to calculate their active share.
    2. Increasingly managers are buying ESG data and this drives revenue for MSCI

It's tough to call a market bottom – but looking at downside potential, what are your thoughts on that?

- Stock markets go up well before recessions end, and historical stats on this are convincing
  - Ex. June 30th recession end, could be possible – stock market may have already put in its low as it is a leading indicator
  - Entirely possible that the internal low was placed last Monday (March 23rd), but impossible to know and we have looked at the data, there is usually a retest of that market low
  - Retest – does not matter, except if you buy the market – good stocks, do not make new lows, they do a lot better on the second pullback
  - Death and destruction in March 2009 was targeted at Financial Services and stocks with terrible balance sheets but you wanted cash going into the market November 2008, that is when downside was behind you

New economy stocks continue to do well, where specifically in Information Technology and Healthcare do you see potential?

- We kept hearing you have to buy cyclicals, value stocks – new economy stocks are overvalued and old economy stocks are undervalued
- Turns out new economy, have been the best stocks – resilient stocks and great balance sheets
- Our sell discipline got us out of banks before this bear market

- **Where is the opportunity?**
  - Opportunity in automation – factories being built outside China are very automated
    1. Hamamatsu Photonics, factory environment drives 20% of their revenue
       a. Monopoly in photomultipliers & scintillators

- Spending will come back when CAPEX goes back up
- Movement of jobs out of China is happening and we are taking advantage of that
- Cloud computing – very interesting and a great opportunity
  1. On premise systems/on premise software may struggle – cloud is proving resilient and lot of growth
     a. Amazon web services – largest provider of Cloud services – We own Amazon
     b. Second largest is Microsoft - we also own Microsoft
- Another trend – Biotech
  1. We have a lot of picks and shovels in this industry
     a. Lonza Group – manufacturer of biotech drugs – 25% market share
     b. Danaher – picks and shovels for biotech and small molecule drugs
- Healthcare and Technology are the two best performing sectors of all time
  1. This environment is showing how relevant both sectors are to the future
  2. Companies we are invested in will take advantage of the trends in these sectors
- Important to understand – this will end, don't know when, but it will end
- I am an optimist because I have never met a rich pessimist
- Construction has been under pressure with this quarantine, we own businesses that will do much better when these sites get back to work
  1. Belimo – intelligent business controls – tenants are demanding buildings conserve energy
  2. Schweiter Technologies, we have owned since 05 – produces composites for buildings
     a. As construction restarts they are well positioned
     b. Largest producer in the world for wind blades
        i. Nice opportunity on renewable energy and can take market share away from oil
        ii. Incredibly bullish on these areas in the future

The USD has done very well protecting on the downside; can you talk about your exposure to the US dollar and short-term outlook versus CAD?

- History starts in 1970 – floating rates, currencies were pegged until then
  - Whenever there is a correction (10% or more drawdown), USD, Swiss Franc, Japanese Yen have gone up
  - This is packing a parachute and provides protection
  - Conversely, when the stock market goes up, these currencies fall, but you can't have it both ways, if you want to pack the parachute – have to give a bit of these gains back up on the other side
  - Will take short-term views, British pound got crushed after Brexit, and UK exposure is less than 5% in the funds, but need to see the pound increase before we goes back into the UK

- Need to like the currency to invest in the country as well
- CAD will go up with rally, but will not change our process- active management, provides downside protection
    1. Hedging currencies can provide statement shock in times like we just experienced

Out of this bear market - do you see the US continuing to be the place to be? Or do you see potentially international areas providing a good opportunity?

- US, Switzerland and Britain are the three best markets over the last 150 years –not a short term trend
- ETF manufacturers often suggest that advisors can pick regions and choose between country ETF's and come up with a strategy
    - We do not think this way, we don't know if or when US outperformance will end
    - As a generalization, markets outside the US are loaded with Financials, Materials and Energy in a way the US isn't – so it is very difficult to get bullish on the world outside USA as a group without being bullish on Financials, Materials and Energy – which we are not
        1. Don't understand how those three sectors can have sustainable growth
    - We doesn't see a circumstance where International dominates the US
    - US does well – highest tech and healthcare weights – done well because they have a ton of market cap in right industries and this drives the market
    - Countries don't mean a lot to us – we do not have a regional strategy, we are bottom up stock investors

In a recent update you mentioned Inflation is now a concern – can you expand on this and how pricing power in your investments is a key for you?

- Pricing power is key – in any inflationary environment, this is more important than anything else
- Inflation or deflation – It doesn't matter to us, we want our investments to be able to withstand either situation with pricing power
- Without pricing power – traditional retailer is getting hit hard (Amazon effect and Costco – low-cost producer)
- Prices are falling, mathematically at some point they will need to rise
    - Asian currency crisis – oil went under $10 dollars
        1. Oil will find a bottom
            a. If oil doubles, feeds into CPI and drives inflation
            b. Last time FED hiked rates after oil doubled was March of 2000 and this drove the market pullback in the early 2000's

Thoughts on Cruise Lines and Airlines?

- **Cruise lines** – fortunately, never owned this, whenever they do well, it seems there is a virus that crushes the industry
    - Never saw it as good business, we are used to it being a business that requires subsidies to succeed
    - Something that goes down 90% can double to be down 80%, stocks that go down the most, can be up the most – but we don't see that as a great investment
- **Airlines-** have owned Delta Airlines, exited the position in 2015
    - When prices of oil started to go down, had to get out
    - People think of Airlines as a way to short oil, this is wrong, Airlines can easily raise prices when jet fuel prices go up
    - Did well 2012 – early 2015, and as jet fuel fell, so did Airlines,
    - Air travel is very compressed in recessions, very cyclical, may be an opportunity here but probably not for a few years
    - It may take years for traffic to recover
- **Commercial Aerospace**
    - Concern at this point, a lot of Aircraft on order – not a good place to be
    - Exposure to Aerospace is towards defense, which is a great sub-sector

What are your thoughts on Commercial Real Estate?

- We have invested in Real Estate, but understand there is a cycle here
- Before I joined Dynamic, picked up REITs on sale in 1994 – average REIT lost 30% of its value
- Got to invest in Real Estate in 2002, when they got crushed
- Same thing in 08 – NAREIT Index lost 50% of its value
    - Will buy these things when they are down significantly
    - Not safe, very risky, will buy them after, hold till mid-cycle and then exit our positions
- REITS have been hit hard and we had been talking about that previously
- We are looking through it all and part of the problem with the space is Financial leverage – that is why they get crushed when spreads widen
    - They have the worst balance sheets in the market
- Areas we are watching – cell phone towers and data centers
    - On watch list have not pulled the trigger
    - Need overall improvement in REIT environment, if people selling REIT ETF, also selling these stocks
- Cloud computing, medical device companies– better to get these on sale versus getting an income focused REIT on sale

Closing comments

- We are in capital preservation mode, I am an optimist, as pessimism only pays off in the short-term
- We are thinking to the end of this situation and the opportunities that are ahead of us
- Thank you all for your support and partnering with us

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