PH&N Dividend Income Fund

Fund Performance

Performance Comparison as of September 30, 2022 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
PH&N Dividend Income Fund	**-1.06**	**3.08**	**16.64**	**9.11**	**8.83**	**8.21**	**9.28**
*S&P/TSX Capped Composite Index**	*-1.41*	*-5.39*	*10.06*	*6.59*	*6.71*	*6.54*	*7.30*
Relative Performance	+0.35	+8.47	+6.58	+2.52	+2.12	+1.67	+1.98

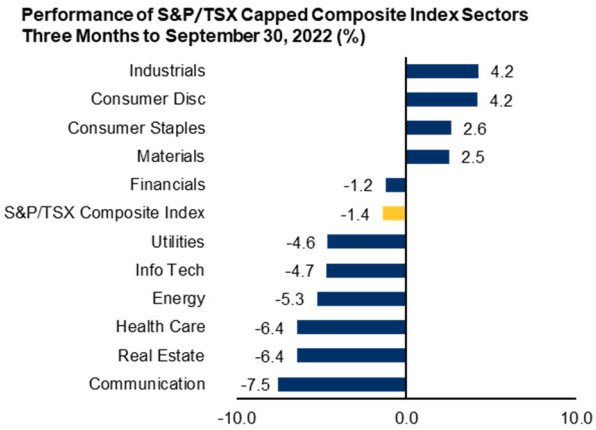
Series O returns. Total returns are gross-of-fee and reported in Canadian dollars. Periods less than one year are not annualized.

*The benchmark for the fund is 2/3 S&P/TSX Dividend Index + 1/3 S&P/TSX Dividend Index (excluding Energy and Materials but including Oil & Gas Refining & Marketing and Oil & Gas Storage & Transportation sub-industries). The S&P/TSX Capped Composite Total Return Index is provided, as it is a widely used benchmark for the Canadian equity market. While the fund uses this index for performance comparisons, it is managed relative to the stated benchmark. There are differences such as security holdings, geographic and sector allocation, which impact comparability. As a result, the fund may experience periods when its performance differs materially from the index.

The PH&N Dividend Income Fund (DIF) is a dividend strategy that is designed to outperform the S&P/TSX Capped Composite Index over a full market cycle. The DIF provides exposures to a well-diversified portfolio of high-dividend-paying Canadian companies that are industry leaders with strong balance sheets. The intention is not to reach for the highest yield paid by riskier companies but to invest in companies that have a track record of stable and gradually increasing dividends. We believe security selection is the key to investment outperformance, and therefore we are focused on stock selection rather than sector allocation.

Performance Highlights

Though the fund outperformed the Canadian equity market in the third quarter by 0.4%, it posted a negative absolute return of -1.1%, as persistent inflation and recession concerns continued to impact all areas of the market. Overall, 6/11 sectors contributed positively to relative performance this quarter, led by Financials and Energy, while Materials and Communication Services detracted the most.



Within Financials, small cap holding **Element Fleet Management** drove relative sector outperformance and was the top individual contributor to relative returns during the period. Element performed well during the quarter as they were able to fulfil deliveries for vehicle orders that had been delayed due to supply chain issues. While we still like the company, we took advantage of strong stock performance and trimmed our position to fund an addition to high-conviction holding **Brookfield Asset Management (BAM)**. BAM announced a spinoff of their investment management division, which we believe will highlight the value of this profitable and growing business.

They are also well protected from an inflation perspective as they are able to pass through price increases, realizing decent growth as a result. Not owning auto manufacturer **Magna** benefitted the fund as the stock experienced weakness stemming from recession risks and concerns about the energy crisis in Europe and its potential impact on production.

Industrials holdings **CP Rail** and **CN Rail** contributed positively to relative performance as rail volumes have been increasing on the back of improving supply chain dynamics and strong pricing power from the duopoly structure in Canada, which is particularly important in the current inflationary environment. Specific to CP Rail, we see promising synergies for their acquisition of Kansas City Southern, particularly in Mexico within the agriculture sector.

Underperformance in the Communication Services sector was driven by an overweight position in **Rogers**. A nation-wide outage in early July that left customers without mobile and internet services for more than 24 hours weighed on the stock. While there may be marginal additional consequences of this event on customer retention, we believe the worst of attrition is behind the company and remain comfortable with our position.

Industrials holding **Waste Connections** detracted from overall returns. A flight to safety drove strong stock performance as garbage removal is a recession-resistant business. Our underweight position detracted from returns, but we believe the stock is trading at unattractively high valuations with the future risk/reward skewed to the downside.

Our high-conviction Real Estate holding **Canadian Apartment Properties REIT (CAPREIT)** detracted from performance as the sharp increase in interest rates hurt REIT valuations. We maintain our overweight position and believe that fundamentals are strong and improving for apartment REITs as demand continues to drive up rents, and they are less cyclical than other real estate sectors, making them more resilient in a recessionary environment.

Trading and Positioning

Given the macroeconomic and recession risks plaguing the markets, we have been thoughtful about our overall portfolio positioning to best manage the current market environment. For example, within the Industrials sector, we are focused on businesses that are less sensitive to the overall economy, particularly engineering firms that stand to benefit from a backlog of non-residential construction. As a result, we added to our position in global engineering firm **WSP**, which has the least European exposure relative to peers, an important consideration right now.

Similarly, our approach to stock selection within Canadian banks remains centred on those we believe to be more defensive – as characterized by less credit risk exposure and more upside to rising interest rates. We added to our positions in **TD** and **BMO**, as we don't believe the market is pricing in the benefits of rising rates for TD or the synergies of BMO's acquisition of Bank of the West.

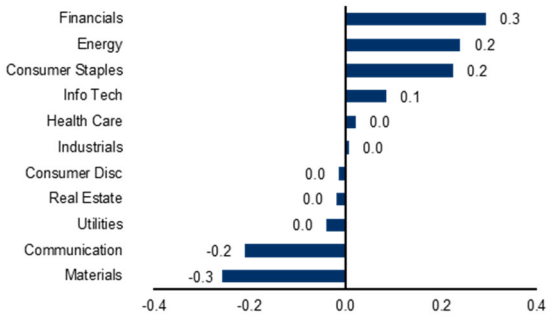
Overall, we remain focused on the intrinsic value of businesses, and on identifying businesses with stable and growing dividends offering attractive risk/reward opportunities.

PH&N Dividend Income Fund
Portfolio Attribution and Structure as of September 30, 2022

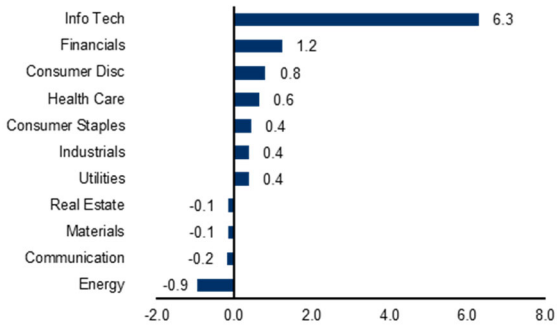
Fund Characteristics

	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
PH&N Dividend Income Fund	**52**	**67.5**	**3.7**
S&P/TSX Capped Composite Index	*236*	*58.1*	*3.5*

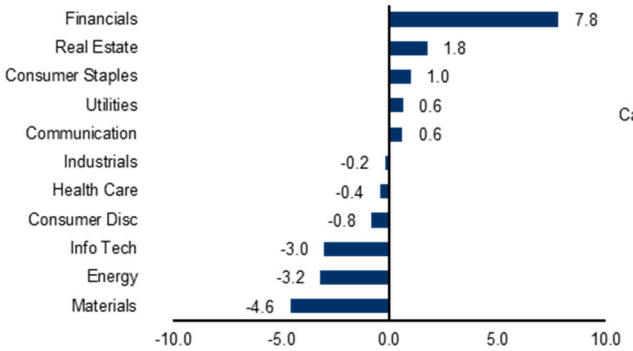
3 Month Attribution (%)



1 Year Attribution (%)



Sector Active Weights (%)



Largest Active Weights (%)