PH&N Dividend Income Fund

Fund Performance

Performance Comparison as of September 30, 2021 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
PH&N Dividend Income Fund	**0.90**	**31.99**	**12.26**	**10.82**	**9.54**	**9.88**	**10.25**
*S&P/TSX Capped Composite Index**	*0.17*	*28.02*	*13.13*	*11.07*	*9.75*	*9.64*	*8.84*
Relative Performance	+0.73	+3.97	-0.87	-0.25	-0.21	+0.24	+1.41

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.

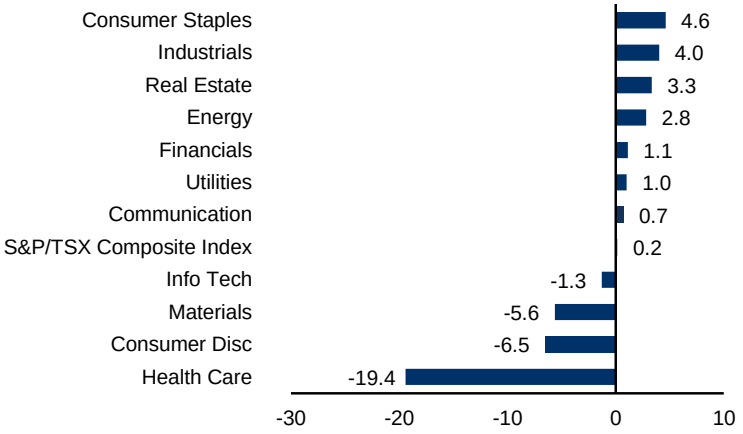
The PH&N Dividend Income Fund (DIF) is a dividend strategy that is designed to outperform the S&P/TSX Capped Composite Index over a full market cycle. The DIF provides exposures to a well-diversified portfolio of high-dividend-paying Canadian companies that are industry leaders with strong balance sheets. 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

The fund posted a return of 0.9% in the third quarter, outperforming the Canadian equity market by 0.7%.

Overall, 6/11 sectors contributed to relative outperformance over the period, led by Materials, Info Tech and Health Care, while Financials and Communication Services detracted the most.

Performance of S&P/TSX Capped Composite Index Sectors
Three Months to September 30, 2021 (%)



Info Tech positioning was additive to relative returns over the period. Not owning **Shopify** – which doesn't pay a dividend – was the top individual contributor to returns. The stock performed poorly at the end of the quarter owing to rising interest rates – which particularly affect growing tech companies (like Shopify), as their value is derived primarily from distant future cashflows. In addition, our overweight position in **Constellation Software (CSU)** added value in the sector, with the company performing well over continued successful acquisitions and growth potential. CSU continues to be

increasingly profitable each year with steady cashflows, making it less sensitive than companies like Shopify to rising interest rates.

CN Rail – one of the largest active weights in the fund as of September 30 – was a top contributor to value add. It outperformed the broader market during the period, with its stock rising after its bid to purchase Kansas City Southern Rail (KCS) was rejected, which investors viewed positively because it eliminated deal risk. Strength in CN was partially offset by our overweight in **CP Rail,** which posted negative returns during the quarter. If CP, which is in contention to take over KCS, is able to secure the deal by obtaining necessary approvals, it is expected to be positive for the company over time. In the short term, however, risks surrounding finalizing the agreement remain. We were active, with respect to trading, in our rail positioning this quarter – as summarized in the next section.

Within the Health Care sector, outperformance was driven by not owning cannabis stocks – particularly **Tilray** and **Canopy Growth,** which continue to unravel early 2021 gains that were driven by optimism that a Democrat-controlled U.S. government might lead to a loosening of restrictions on marijuana use.

Not owning auto-parts supplier company **Magna** drove outperformance in the Consumer Discretionary sector and was a top individual contributor to overall returns. The company continues to be negatively impacted by the global chip shortage and supply chain disruptions.

Relative underperformance in the Financials sector was driven by not owning **National Bank,** which outperformed other banks, and our overweight position in small-cap holding **Element Fleet Management**. We maintain an overweight to the banking sector in general, favouring stocks where we see superior relative return opportunities – leading to overweight positions in TD and CIBC, in particular, and not owning National Bank. Our position in Element, a vehicle leasing business, detracted from performance due to continued global supply chain delays with its suppliers. This delay in delivery of vehicles from OEMs (original equipment manufacturers) hurts the timing of Element's revenues. We believe these supply chain issues are short-term headwinds that will be resolved over time.

Trading and Positioning

Within the Industrials sector, our Playbook for rail companies indicates that rails tend to outperform the broader market in economic recoveries, presenting a compelling reason to add to our positions in both **CN Rail** and **CP Rail**. We increased our weight in **CN Rail** early in the quarter, and **CP Rail** at the end of August. With respect to CN, we see additional potential upside as the company moves to focus on improving its operations, marketing, and culture. The announcement at the end of August about the rejection of CN's takeover bid for KCS boosted CN and CP's stocks and provided more clarity going forward on the likelihood of CP's bid for KCS being approved. In addition, CP's stock was down overall during the quarter, presenting an attractive opportunity to add to our existing position.

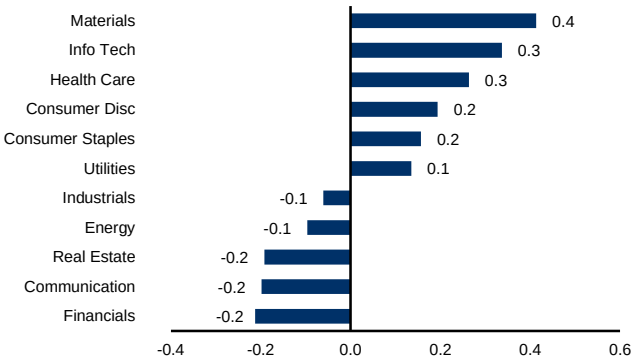
Looking ahead, we are comfortable with our overall positioning – overweight positions in Canadian banks and select insurance, and Industrials holdings where we see attractive return opportunities. We remain focused on investing in high-quality businesses with stable and growing dividends that provide attractive risk/reward opportunities.

PH&N Dividend Income Fund
Portfolio Attribution and Structure as of September 30, 2021

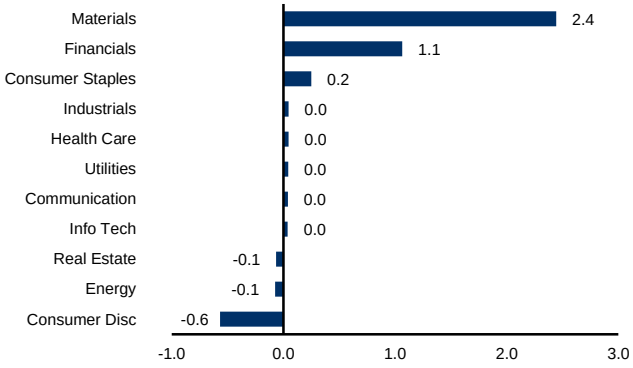
Fund Characteristics

	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
PH&N Dividend Income Fund	**51**	**69.2**	**3.1**
S&P/TSX Capped Composite Index	*234*	*66.1*	*2.7*

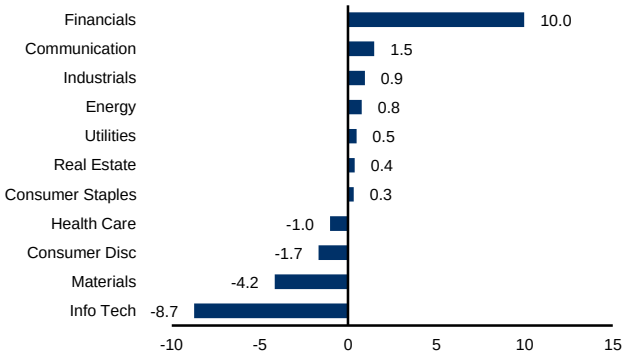
3 Month Attribution (%)



1 Year Attribution (%)



Sector Active Weights (%)



Largest Active Weights (%)