# PH&N Dividend Income Fund

## Fund Performance

| Performance Comparison as of December 31, 2021 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | 10 Yr |
| **PH&N Dividend Income Fund** | **7.90** | **30.26** | **15.46** | **17.39** | **10.51** | **10.24** | **10.60** |
| *S&P/TSX Capped Composite Index** | *6.47* | *25.09* | *14.93* | *17.52* | *10.28* | *10.04* | *9.14* |
| Relative Performance | +1.43 | +5.17 | +0.53 | -0.13 | +0.23 | +0.20 | +1.46 |

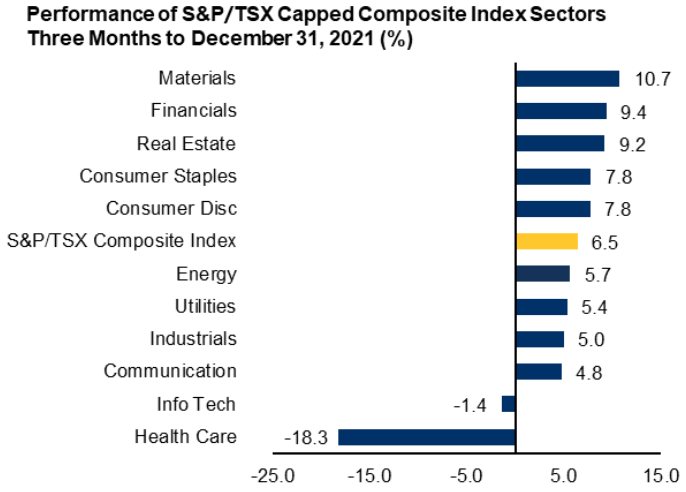
Series O returns. Total returns are gross-of-fee and reported in Canadian dollars. Periods less than one year are not annualized.

*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 7.9% in the fourth quarter, outperforming the Canadian equity market by 1.4%. In 2021, the fund performed very well, posting a return of 30.3%, representing 5.2% in value add relative to the Canadian equity market.




Overall, 7/11 sectors contributed to relative outperformance this quarter, led by Info Tech, Financials and Utilities, while Energy and Materials detracted the most.

Value add in the Info Tech sector was driven by not owning **Shopify**, **Lightspeed**, and **Nuvei**, none of which pay a dividend and performed poorly this quarter due to a rotation away from growth stocks. In addition, separate short reports released on both Lightspeed and Nuvei compounded the negative sentiment and performance for these stocks.

Stock selection within the Utilities sector added value this year and in the fourth quarter, favouring regulated utilities like **Emera** and **Fortis** – which are certainly part of the energy transition despite not

having “renewable” in their name – over renewable energy stocks that soared in 2020 and corrected in 2021. This quarter, an overweight position in **Brookfield Infrastructure Corp**, which performed well due to organic growth driven by strong gas transportation volumes and improved commodity prices, also added to relative returns.

The Financials sector was a top contributor to returns during the final quarter of the year, led by positioning within Canadian banks. We remain focused on **Royal Bank** and **CIBC**, as they offer the best organic loan growth trends and trade at reasonable valuations. Looking ahead, we expect a normalization of capital market activity, which will have the biggest impact on **BMO** and **National Bank** – our lowest-conviction names in the group, particularly National Bank, which we don’t own. Positive themes for the banks heading into 2022 are higher interest rates, which will lead to net interest margin expansion, and capital deployment opportunities given strong capital positions.

An overweight in Industrials holdings **SNC** was a top individual detractor from returns this quarter**.** While SNC was a top contributor to returns this year, it corrected in the fourth quarter. Their engineering and consulting design business performed well through both organic growth and support from fiscal stimulus and the U.S. infrastructure bill. SNC’s short-term challenges reside with their construction business, which has been negatively impacted by inflation and supply chain delays. We believe that current share prices are discounting outsized losses, and we maintain our position in SNC.

## Trading and Positioning

We increased our Real Estate Investment Trust (REIT) position this quarter by adding to **Canadian Apartment Properties REIT** and **First Capital REIT** for exposure to the apartment and retail sectors, respectively, as we see upside in both. Apartments have experienced a slowdown in market rent growth and weaker demand due to the pandemic. We believe that as immigration ticks up, demand will revert to pre-pandemic levels, reinstating rent growth. Our focus with retail REITs has been on grocery and drug-store anchored retail, which have fared well during the pandemic. As occupancy returns to pre-pandemic levels for other retailers, there is an opportunity for retail REITs to deliver above-average growth.

While the price of oil declined during the quarter owing to fears of more lockdowns in the wake of the Omicron variant, Energy stocks took the oil price weakness in stride and our core positions – **Suncor** and **Canadian Natural Resources** – outperformed the market. That said, our overall Energy positioning detracted from performance, as we were underweight the sector as a whole and didn’t own smaller-cap names that performed very well this quarter. We added to our position in **Suncor** in October and reinstated a position in small-float holding **PrairieSky,** whose business model, characterized by a high-margin cashflow stream and no capital costs, we view positively.

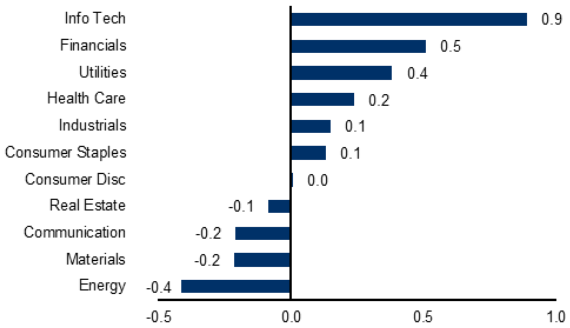
Looking ahead, we maintain an overweight position in Canadian banks and have conviction in Industrial holdings, such as the rail companies and SNC, where we see attractive return opportunities. We are constructive on rails right now because freight demand is strong and periods of high inflation have been traditionally positive for rail companies, as they have significant pricing power. We remain focused on the intrinsic value of a business, on identifying businesses with stable and growing dividends offering attractive risk/reward opportunities, and tactically adjusting our exposure within sectors.

# PH&N Dividend Income Fund
# Portfolio Attribution and Structure as of December 31, 2021

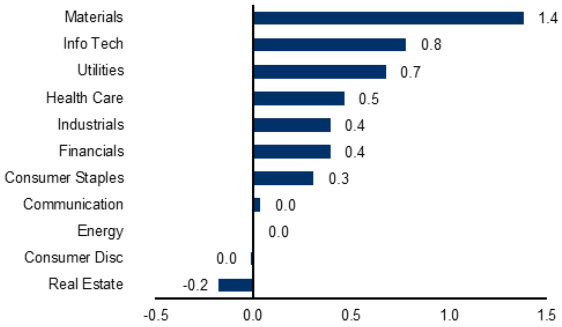
**Fund Characteristics**

| | # of Holdings | Avg Market Cap (C$ billions) | Dividend Yield (%) |
|---|---|---|---|
| **PH&N Dividend Income Fund** | **53** | **74.8** | **3.2** |
| *S&P/TSX Capped Composite Index* | *241* | *72.0* | *2.7* |

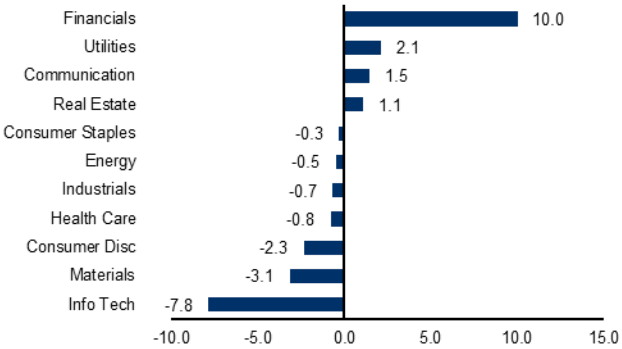
## 3 Month Attribution (%)




## 1 Year Attribution (%)




## Sector Active Weights (%)




## Largest Active Weights (%)