VIEWS FROM THE
EQUITY INCOME TEAM

Dynamic Global Infrastructure Fund

January 23, 2024

Long Term Growth and Good Dividends

The oversold conditions in infrastructure stocks by the end of Q3/23 reversed in the final quarter of the year, and the entire sector recovered meaningfully. That left Dynamic Global Infrastructure Fund (the Fund) pretty much where it started at the beginning of the year.

What Worked

For the full year 2023, the sectors that positively contributed were found in the airports, toll roads, and railroads. Air and road traffic volumes recovered from the pandemic. Our holdings in airports and toll roads are primarily European listed these stocks rebounded after a weak 2022 as Europe was more resilient than expected. Railroads, which are North American based, similarly recovered after a difficult 2022 as the U.S. economy also proved more resilient. North American pipelines had a volatile year but ultimately were positive contributors in 2023 as investors seemingly became more interested in exchanging future growth potential for more attractive dividends yields in hand today, specifically if future growth is financed externally.

What Did Not Work

The more interest sensitive sectors, being regulated and renewable utilities and cell towers negatively contributed on concerns over their ability to finance future growth, as well as the impact of interest rate volatility. We note that interest rates ended the year fairly close to where they started the year, so one can not attribute a rise in interest rates to the underperformance of these sectors.

Positioning Changes

During the quarter we made the following changes to the portfolio:

- Added to regulated utilities and renewable power stocks due to the significant pull back in price which created a very attractive buying opportunity.
- Added to U.S. midstream exposure as the yields remain very compelling and are still in the high-single digits.
- Initiated exposure to hybrid security issuances from energy infrastructure companies, as the yields offered were also highly compelling.
- Reduced toll road and airport exposure and deployed cash at the end of quarter as there was a more compelling entry point in the oversold areas noted above.

Regulated		Long-Term Contracted		GDP Sensitive		Diversified
Sector	**Weighting**	**Sector**	**Weighting**	**Sector**	**Weighting**	**Weighting**
Regulated Electric and Gas	33.6%	Renewable Power	11.4%	Toll Roads	6.7%	5.3%
Regulated Water	2.9%	Data Infrastructure	7.0%	Airports	5.9%	
		Pipelines	13.6%	Railroads	9.1%	
Total	**36.5%**	**Total**	**32.0%**	**Total**	**21.7%**	**Total 5.3%**

Source: Dynamic Funds as of December 31, 2023, table does not include cash or hybrid debt

Outlook

The outlook is more favourable now given the easing of financial tightening by central banks, along with a more compelling starting point in valuations for infrastructure stocks as cash flows and dividends continued to grow last year, even though the stocks did not.

We continue to look to increase the internal yield of the fund, as greater cash in hand seems more valuable to investors today than future growth. We are finding these yield opportunities in energy infrastructure, renewable power, international, and hybrid securities. That is not to say there is limited future growth, far from it, and our process is predicated on total return potential. The long-term growth for infrastructure businesses comes from the following:

- energy infrastructure investment needed to address energy security and climate change risks,
- on-shoring of manufacturing activity, which contributes to increased power demand benefiting energy infrastructure too, but also transportation infrastructure like railroads and toll roads, and
- digitization, benefiting communications infrastructure as well as energy infrastructure companies given the high energy intensity of data centers

We expect this, along with good dividend yields on offer today to underpin decent, sustainable total returns over the long term.

As a result of higher dividend yields in the portfolio we have increased the quarterly distribution in the Fund to $0.08998/unit for Series A, and $0.14642/unit for Series F, which represents an annualized distribution yield of 1.9% and 2.9%, respectively based on NAVs as of December 31, 2023.

Thank you for your support.

Frank Latshaw
Vice President & Portfolio Manager