

# Dynamic innovation

Dynamic continues its position as a **leading innovator** by introducing **selective short selling** in fourteen Dynamic funds.

This enhancement, traditionally used by sophisticated high net-worth investors and large institutions, is now available to bring added value to a select group of Dynamic funds.

While short selling will be restricted to 10% of the overall value of each fund, this innovation gives us the opportunity to better control market volatility and potentially enhance investment performance.

## Controlled short selling

### Which funds benefit from this enhancement?

- Dynamic Power Canadian Growth Fund
- Dynamic Power Canadian Growth Class
- Dynamic Power American Growth Fund
- Dynamic Power American Growth Class
- Dynamic Power Global Growth Class
- Dynamic Power Balanced Fund
- Dynamic Power Small Cap Fund
- Dynamic Focus+ American Fund
- Dynamic Focus+ Equity Fund
- Dynamic Focus+ Balanced Fund
- Dynamic Focus+ Real Estate Fund
- Dynamic Focus+ Resource Fund
- Dynamic Focus+ Small Business Fund
- Dynamic Precious Metals Fund

## Short selling explained

Short selling is a technique used to profit from the falling price of a stock. A short seller sells a stock that they believe will fall in value. They then borrow the stock from someone who already owns it to settle the trade. Later, they buy back the stock they shorted and return it to the lender to close out the loan. If the stock has fallen in price between when they sold it short and bought it back, a profit is made.

Short selling allows investors to capitalize on a stock whose value is expected to fall. “Buy low, sell high” is the goal of both short selling and purchasing shares (“going long”). A short sale reverses the order of a typical stock purchase: the stock is sold first and bought later.

## Why short sell?

### Portfolio protection

Short selling can be used to protect portfolios against loss due to broad market or sector declines. By adding performance when stocks decline, short positions can dampen overall portfolio losses, smoothing out long-term returns.

### Use all research, even when it points to a weak stock

Often when we analyze companies we come across a stock that we believe is overvalued and positioned to disappoint investors. Simply put, it's a stock we wouldn't invest in, poised for decline. Traditionally this opportunity has been missed. These funds now have the opportunity to profit from these situations.

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## Tight risk controls

As with any market investment, there is some risk associated with short selling. Dynamic Funds, however, have a number of measures in place to ensure that **potential risks are tightly controlled**:

- Total short position cannot exceed 10% of the value of a fund.
- Stocks sold short must be liquid (listed on an exchange), and exceed \$300 million market capitalization.
- No single short position can exceed 2% of the value of a fund.
- We will use "stop-loss" orders to close out short positions if the loss on any given position exceeds 15%.
- We must maintain "cash cover" of 150% of the total market value of our short positions in each fund (which ensures the fund is not leveraged).

Our managers are experienced in short selling, having proven their ability in hedge funds currently managed by the Dynamic team.

## The case for short selling

- Improved downside protection in transitional or volatile markets
- Unique risk control and return opportunities not provided by traditional mutual funds
- Enhanced investment flexibility through dynamic trading strategies
- Increased portfolio diversification through lower fund correlation to overall stock markets
- Decreased volatility compared to traditional mutual fund counterparts

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