Portfolio Manager Commentary - December 31, 2022

Global Markets Review

The 2022 market presented investors with a challenging environment. The Russia-Ukraine war, aggressive monetary tightening, and rampant inflation fueled a rise in recessionary concerns, sending most major global indices to their worst yearly performance in decades. All in all, the MSCI World Index slumped by 17.7%. Energy significantly outperformed and was the only sector that registered positive returns during the year (+47.7%), while Communication Services was the bottom-performing sector (-36.7%). In North America, the S&P 500 dropped by 18.1% with Energy also the best-performing sector. The S&P/TSX Composite edged down 5.8%, boosted by Energy (+30.9%) and Consumer Staples (+10.1%). In Europe, the STOXX 600 lost 9.9% for the year. Major European indices also finished the year in negative territory except for the U.K. FTSE 100 (+4.6%). Spain IBEX 35 and France CAC 40 were down by 2.0% and 6.7%, respectively. Italy, Germany, and Switzerland fell by 9.4%, 12.3%, and 14.3%, respectively.

Global economic growth was challenged by elevated inflation throughout 2022. The impact from exogenous shocks, such as the Russia-Ukraine war and China's Covid restrictions, faded during the back half the year. While inflation trended down from the June high (9.1%) to 6.5% by December, other major economic indicators in the U.S. confirmed an economic slowdown. Manufacturing PMI largely retreated in Q4 and entered December at 48.4, an indication of contraction if readings are below 50. Global bond markets remained volatile during the second half of 2022. The U.S. Treasury market kept rising in response to the inflation overshoot and monetary tightening, while the 2-year and 10-year Treasury spread went deeper below zero territory. The US dollar appreciated during the first three quarters thanks to a hawkish Federal Reserve, but weakened against major currencies during Q4 amid expected moderation in further rate hikes. Meanwhile, the Bank of Japan ended the year with a hawkish surprise of widening the target range for 10-year government bond yields, which spiked to the highest levels since 2015. Most equity markets made robust gains in Q4, with investors balancing a slower pace of central bank tightening, deceleration of inflation, and reopening in China. Energy, Industrials, and Materials were strengthened during the quarter. From a factor perspective, value generated the best risk-adjusted returns for 2022, which came at the expense of growth.

The Bank of Canada (BoC) delivered two consecutive 50-basis-point policy rate increases at the October and December meetings, respectively. This sent Canada's overnight policy rate to 4.25%. As the central bank's rhetoric shifted from "the policy rate will need to rise further" to "considering whether the policy interest rate needs to rise further", the BoC's tightening cycle is likely nearing the zenith. Monetary policy is now considerably restrictive and risks to the economy are skewed to the downside if elevated policy rates persist, which could stem from high household debt levels and a weaker housing market.

During the second half of 2022, the market narratives continued to focus on inflationary risks and the path of tightening. While inflation appears to have decelerated during Q4, it remains elevated and well above central bank targets. We believe it will take some time for inflation to cool due to the stickiness of things like service inflation and lagging components like shelter. The pace of interest rate increases has begun to decelerate and is expected to be more modest in 2023. Having said that, we must acknowledge the path to inflation reduction is not a linear one as there are elements of structural inflation that will likely persist in the future. These include, reversal of many globalization trends, underinvestment in infrastructure and commodities, and the cost of climate change and decarbonization. Moreover, low unemployment rates, elevated job-workers gap and higher wage growth will continue to tighten the labor market, making broader inflation more stubborn. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2022, the global economy is projected to grow 2.7% for both 2022 and 2023, revised down by 0.9 percentage points lower from the April forecast. Global inflation is forecast to decline to 6.5% in 2023 and further to 4.1% by 2024.

Looking forward to 2023, commodity prices will remain one of the key factors for Canada to outperform other developed markets. Crude oil is finding support levels and looking for a rebound, on the recent development that China's reopening is driving up demand. Energy sector fundamentals still look solid with attractive free cash flow generation and favorable capital allocation. While inflation has shown signs of waning, if it stays elevated, the BoC could also keep the policy rates higher for longer. This will keep testing the Canadian housing market and households' ability to service their debt. On the positive side, the personal savings rate remains healthy, which is still well above pre-pandemic levels after falling significantly in the past two years from the pandemic highs. This should continue to support relatively resilient consumer spending.

Portfolio Review:

Units (1 Class A share and 1 Preferred share) of Dividend Growth Split Corp. (the "Fund") were down 1.4% during 2022. This compares to the S&P/TSX Composite High Dividend Index, which was up 0.8% over the same period. The S&P/TSX Composite Index was down 5.8% in 2022.

Strong stock selection in the Energy sector contributed positively to Fund performance. Tourmaline Oil, Canadian Natural Resources and ARC Resources all posted stellar returns in excess of 40% during the year. We continue to have conviction in the energy space on the back of tight supply-demand fundamentals. Free cash flow generation remains strong and producers continue to exercise capital discipline. Underweight positions in Real Estate also enhanced the Fund's performance. Real Estate was the third worst performing sector in the S&P/TSX Composite, only outperforming Information Technology and Health Care during the year. Many Real Estate subsectors struggled to recover due to a combination of rising interest rates and weak fundamentals. We continue to underweight this sector heading into 2023.

The portfolio's positions in Materials and Financials detracted from the Fund's gains in the aforementioned sectors. Certain commodity prices such as lumber trended down over the course of the year after reaching multi-decade highs during the pandemic as lumber demand soared. A weakening housing backdrop has pressured the lumber industry and in turn lumber stocks. Gold and copper were also weak through the first 9 months of the year due to a rising U.S dollar but recovered strongly in the fourth quarter alongside a weakening U.S dollar. As the U.S dollar continues to weaken, we see further upside to gold and copper stocks, while we have a more bearish view on lumber demand heading into 2023.

During Q4, we have generally increased the Fund's cyclical exposure by increasing allocations to Consumer Discretionary, Energy, Financials and Industrials, and trimming allocations to Utilities and Real Estate. Investor sentiment has shifted more positively during Q4 as several macro indicators have signaled easing inflationary pressure in the economy. We are, however, cognizant of the amount of economic uncertainty going forward and will continue to monitor the portfolio closely for pivots.

Laura Lau, CIO

Michael D. Clare, SVP & SPM

Annual Compound Returns[1]	1-YR	3-YR	5-YR	10-YR	Since Inception[2]
Dividend Growth Split Corp. - Class A	(13.0%)	10.1%	5.9%	12.3%	8.4%
S&P/TSX Composite Index	(5.8%)	7.6%	6.9%	7.7%	5.4%
S&P/TSX Composite High Dividend Index	0.8%	8.3%	7.4%	7.5%	5.6%
Dividend Growth Split Corp. - Preferred	5.6%	5.6%	5.5%	5.4%	5.4%
S&P/TSX Preferred Share Index	(18.1%)	1.2%	(0.2%)	0.6%	2.1%
Dividend Growth Split Corp. - Unit	(1.4%)	7.5%	5.7%	8.3%	6.3%

(1) Returns are for the periods ended December 31, 2022 and are unaudited. The table shows the Fund's compound return on a Class A share, Preferred share and unit for each period indicated, compared with the S&P/TSX Composite High Dividend Index (the "Composite High Dividend Index"), the S&P/TSX Composite Index ("the Composite Index"), and the S&P/TSX Preferred Share Index ("Preferred Index") (together the "Indices"). The Composite High Dividend Index tracks the performance, on a market weight basis and a total return basis, of 50-75 highest dividend yielding securities within the Composite Index. The Composite Index tracks the performance, on a market weight basis, of a broad index of large-capitalization issuers listed on the Toronto Stock Exchange. The Preferred Index tracks the performance, on a market weight basis, of preferred shares trading on the TSX that meet the criteria relating to size, liquidity and issuer rating. The Fund invests in an actively managed portfolio and is rebalanced at least annually. It is therefore not expected that the Fund's performance will mirror that of the Indices, which have more diversified portfolios. The Indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund's performance is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per Class A share and per unit, or the redemption price per Preferred share and assumes that distributions made by the Fund on the Class A shares, Preferred shares and units in the periods shown were reinvested (at Net Asset Value per Class A share and per unit, or the redemption price per Preferred share) in additional Class A shares, units and Preferred shares of the Fund.

(2) Inception Date December 3, 2007.

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There are ongoing fees and expenses associated with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the Fund in the public filings available at www.sedar.com. The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income tax payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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