Market Commentary
Fourth Quarter 2019

PICTON MAHONEY Asset Management

Synergy Global Corporate Class

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Class F returns (in %) as at December 31, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (11/30/2000)
Synergy Global Corporate Class	20.9	20.9	9.0	8.7	10.6	4.7

Source: Morningstar Direct, Bloomberg Finance L.P. and Picton Mahoney Asset Management, as at December 31, 2019.

Market Overview

- While investors largely focused on a trade agreement between the United States and China during the latter part of 2019, we attributed the year's strong equity performance to overall financial conditions. A very accommodative U.S. Federal Reserve seems willing to embrace a period of inflationary pressure before it raises interest rates, which suggests the bar to raise rates is far higher than it is to lower them. We feel the backdrop for equities remains constructive over the near term, given the reintroduction of what appears to be a quantitative easing program, calming of global trade tensions and potential economic stimulus in China.

Performance Summary

- Over the fourth quarter ended December 31, 2019, Class F of Synergy Global Corporate Class (the Fund) returned 5.8%, compared with 6.4% the MSCI World Index.

- The Fund underperformed primarily due to overweight exposure to the real estate and industrials sectors. Our underweight positions in consumer staples and energy made positive relative contributions.

Contributors to Performance

- During the quarter, the Fund's top contributing investments included DB HiTek Co., Ltd. and Advanced Micro Devices, Inc.

- DB HiTekCo. is a Korean foundry that focuses on manufacturing CMOS image sensors and Power Management IC. In general, the global foundry business is recovering from some supply chain disruptions in the first half of the year. This helped to limit the seasonal decline in foundry demand that is typically experienced in the fourth quarter of the year. DB HiTek benefitted from some trickle-down demand as best-in-class foundry, Taiwan Semiconductor Manufacturing Company Limited, is running near full capacity. The activity should continue into 2020 as demand for CMOS image sensors is expected to remain strong on the back of 5G and larger camera phones.

- Shares of Advanced Micro Devices have had a strong run on account of the company’s successful introduction of a new family of seven nanometer processors that quickly gained traction in the marketplace. The company’s new products offer compelling price and performance attributes relative to those of its closest peer, Intel Corp. While there was some concern among investors in October that Advanced Micro Devices wouldn’t be able to secure enough advanced manufacturing capacity from partner Taiwan Semiconductor Manufacturing Co. Ltd., these fears were disproven when Advanced Micro Devices released its third-quarter earnings report, together with a strong forecast. The company continues to have strong momentum from its design wins and has strong prospects for gains in market share in desktop, notebook and server sales, as Intel continues to encounter difficulty obtaining next-generation capacity.

Detractors from Performance

- Our positions in Pressance Corp. and The Progressive Corp. detracted from the Fund’s relative performance during the quarter.

- Pressance shares fell on news that its president had been arrested for misappropriating funds. The stock initially sold off sharply before recovering 15% near the end of December as more information emerged, the president resigned and investors gained some comfort about the earnings and cash flow projections for the next few years. Prior to this, Pressance had been making good progress and changing its business mix using artificial intelligence to help potential buyers/investors to better visualize their opportunity.

- The Progressive Corp. had been a core holding in our portfolio for quite some time. However, this best-in-class auto insurer occasionally succumbs to cyclical downdrafts in which claims severity increases ahead of requisite price increases, and it appears we have reached this point. The company’s combined ratio is now climbing, driven by increasing core losses from both the personal and commercial businesses. While accident frequency trends have been favourable, it has been insufficient to offset the rise in severity. Competitors have recently lowered their coverage premiums in search of growth, thereby limiting the ability to offset loss costs with pricing. With the Progressive

Corp.'s stock trading at a premium and just beginning to post negative estimate revisions for the first time in years, we decided it was time to exit the position and redeploy our capital in better opportunities.

Portfolio Activity

- We have increased our exposure to the financials and industrials sectors because we see a window of opportunity for cyclical and value-oriented equities to benefit from the current environment. As part of this strategy shift, we decreased allocations to both real estate and utilities, fearing defensive stocks are too expensive in this changing landscape.

Outlook

- We will continue to monitor geopolitical issues as they arise. The situation in Iran needs to be monitored for potential further escalations. A strong response in energy markets could negatively impact strong consumer sentiment and activity, which has held up well in the United States due to low interest rates. Of course, the U.S. election in November will have impact, particularly if a less market friendly Democratic candidate unseats Donald Trump.

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