Market Commentary
First Quarter 2020

PICTON MAHONEY
Asset Management

Synergy American Corporate Class

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Class F returns (in %) as at March 31, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-08-08)
Synergy American Corporate Class	-11.5	-2.2	6.5	6.2	11.4	3.2

Source: Picton Mahoney Asset Management, as at March 31, 2020.

Market Overview

- The game changed rapidly for U.S. equities in March 2020 as the gravity of the COVID-19 pandemic became better understood. While monetary and fiscal responses were appropriately large and swift, it remains unclear whether such actions can stave off the devastation caused by an effective shutdown of economic activity. Stay-at-home orders decimated small-business operations and led to a rapid spike in unemployment levels. Thus, it is essential to monitor of the spread of the virus. Critically, the United States has been slow to enforce such orders on a national basis, perhaps hindering direct parallels to the recovery scenarios in China. That said, we need to be mindful that accelerated testing, declines in death rates or scientific advancements on vaccines/anti-viral drugs could be game-changers and lead to a sharp snap-back in equity markets.

Performance Summary

- Over the first quarter ended March 31, 2020, Class F of Synergy American Corporate Class (the Fund) returned -11.5%, compared with -11.8% for its benchmark, the, the S&P 500 Total Return Index (C$).

- The Fund outperformed primarily due to our underweight exposure to the energy sector and our overweight position in real estate. Our overweight positions in financials and industrials detracted from performance.

Market Commentary
First Quarter 2020

PICTON MAHONEY
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Contributors to Performance

- During the quarter, DexCom, Inc. and RingCentral, Inc. made the largest contributions to the Fund's performance.

- DexCom has long been on our radar as an intriguing secular growth name. We were fortunate enough to finally add the name to the portfolio late in the first quarter of 2020, when its share price became dislocated in the aggressive March market pullback. The stock subsequently had a quick 30% rally. At the time, we saw an intriguing opportunity to buy a best-in-class franchise where earnings achievability seemed far greater than for its peers amid the pandemic. DexCom produces an industry-leading continuous glucose monitoring system – essential for insulin-dependent diabetics. Glucose levels need to be monitored regardless of the economic environment and this creates a good recurring revenue stream from existing patients.

- RingCentral has been part of our portfolio since it announced a transformational partnership with Avaya Holdings Corp. during the fourth quarter of 2019. Under the terms of that agreement, RingCentral becomes the exclusive Unified Communications as a Service (UCaaS) provider to Avaya, providing it with instant access to Avaya's installed on-premise customer base of 100 million. RingCentral currently has a 40% share of the market with its two-million seat-installed base, which demonstrates the potential power of this newfound partnership. RingCentral has also proven to be a winner in a COVID-19 world, as its work-from-home productivity and collaboration tools have proven vital to many existing and new organizations.

Detractors from Performance

- The Fund's positions in Gaming and Leisure Properties, Inc. (GLPI) and Bank of America Corp. detracted from the Fund's relative performance during the quarter.

- Like many companies in the gaming business, the investment thesis for Gaming and Leisure Properties, Inc. (GLPI) was dramatically altered with the onset of the COVID-19. As the owner of the real estate for the operations of Penn National Gaming, GLPI's immediate prospects came under serious question as Penn was forced to close down all of its gaming operations in the United States to curb the spread of the virus. With the timeline for a return to service unclear and a potentially longer-term attendance recovery after operations resume, investors were forced to assess Penn's suddenly perilous balance sheet. These issues extended to GLPI and caused us to exit our position in the stock.

Market Commentary
First Quarter 2020

PICTON MAHONEY
Asset Management

- The onset of COVID-19 has sent the banks down a tough road. Bank of America has not been immune from this new paradigm. The odds of recession have spiked, affecting the yield curve. Credit provisions will no doubt move higher, impacting earnings. and banks have curtailed their share-buyback programs. We believe the largest and strongest U.S. banks, including Bank of America, held an advantage heading into this crisis in light of its significant technology investments and strong deposit franchises. So, while we have reduced our financials exposure, Bank of America remains a key component of our allocation to this sector.

Portfolio Activity

- At the end of the period, our cash levels were higher than normal, as we anticipated that markets would re-test their recent lows. We plan to deploy this capital strategically when attractive entry points appear. We have reduced exposure to financials and consumer cyclicals, given the pending recessionary environment. We are focusing our portfolio on names that we feel can make it to the other side of the pandemic. More than ever, a strong balance sheet is of the utmost importance. Additionally, we are focused on companies that are seeing little disruption regardless of the situation and/or those that will come through even stronger due to a unique business model. Lastly, we are supplementing the portfolios with companies exhibiting positive fundamental change, with attractive yields and low payout ratios, as we feel these are very enticing amid extremely low interest rates.

Outlook

- No doubt we are in unprecedented times. We believe a cautious approach, as outlined above, is warranted in the near term. There are reasons, however for optimism. The world is fighting a common enemy. Central banks are firing their big guns and governments around the world have acted swiftly with aggressive fiscal stimulus and seem prepared to do more, as necessary. Scientists are working around the clock to defeat the virus, and progress on this front or a decline in death rates could lead to an explosive recovery. Our job, for now, is to build our lists of intriguing opportunities and be ready to pounce when the right time comes.

Source: Morningstar Research Inc., Bloomberg Finance L.P. and Picton Mahoney Asset Management.

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Market Commentary
First Quarter 2020

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