Market Commentary
Second Quarter 2020

PICTON MAHONEY
Asset Management

Synergy Global Corporate Class

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Class F returns (in %) as at June 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-11-30)
Synergy Global Corporate Class	-0.6	6.3	6.7	6.2	11.4	4.5

Source: Picton Mahoney Asset Management, as at June 30, 2020.

Market Overview

- The second quarter began with April registering the worst month of economic contraction on record for many major economies, but ended on a positive note as the COVID-19 lockdowns finally bore fruit and allowed for a gradual reopening of the economy. As a result, equity markets found a footing, with some cyclical sectors such as home building fully erasing the losses from earlier in the year.

Performance Summary

- Over the second quarter ended June 30, 2020, Class F of Synergy Global Corporate Class (the “Fund”) returned 15.5%, compared with 14.4% for the MSCI World Total Return Index (C$).

- Our underweight positioning in the consumer staples sector and overweight exposure to information technology added to relative performance, while our overweighting in industrials and underweighting in materials detracted.

- Among individual securities, PayPal Holdings Inc. and S&P Global, Inc. made the biggest contributions to relative performance, while Tesla Inc. and CORESTATE Capital Holding SA were the biggest detractors.

Contributors to Performance

- We are highly constructive on PayPal’s growth drivers as e-commerce and mobile commerce growth continues to dwarf overall retail trends in a COVID-19 world. As demand continues to increase for digital banking and electronic payments among millennials and Gen-Z consumers, PayPal is uniquely positioned to continue to capture significant market share. Additionally, the company's very strong balance sheet and free-cash-flow generation continues to enable it to expand its network and acquire attractive ancillary products (such as PayPal Honey) to further increase customer engagement. During the quarter, PayPal saw a positive inflection in both net new accounts and user engagement, which we believe can continue to drive accelerated growth in total payment volume. We expect the stock's multiple and company earnings estimates to continue to grind higher.

- S&P Global has benefited from an extremely healthy debt-issue calendar. Volumes during the quarter remained robust as U.S. corporate issues (both investment grade and high yield) continued to be printed at a record pace, taking advantage of U.S. Federal Reserve (Fed)-supported bond markets. Global investment-grade issuance is running at 75% year-over-year, while high yield is 7% and government 22%. Longer term, we believe that the pandemic-driven recession has the potential to accelerate the secular shift from bank loans to bonds as global banks pull back lending capacity to protect their balance sheets through the downturn. During the last three recessions (in 1990, 2000 and 2007) U.S. bond penetration increased an average of 860 basis points. S&P Global is favourably positioned to benefit from this secular shift.

Detractors from Performance

- CORESTATE's business has been challenged by COVID-19. The company is an investment manager that focuses on developing, financing and managing real estate assets in Europe. Sales in the sector have slowed considerably over the past few months. This slowdown has raised some questions about its mezzanine business, which accounts for about 25% of revenue and generates high returns (11-13% after tax). Investors also are concerned about the company's commercial real estate exposure, in which cash flow has been hampered by some tenants holding back on rent payments. While the business is challenged short term, this risk is mitigated by the fact that CORESTATE is still predominately exposed to Germany, which has Europe's most attractive fundamentals. Demand from institutional investors remains high and there is no major debt refinancing until 2022.

- PepsiCo, Inc. was left behind amid the quarter's strong performance. Nonetheless, there will always be room in our portfolios for some defensive names to offset some of our more aggressive positions. PepsiCo offers a strong position in the attractive snack category and is well positioned internationally. Within snacks, the company has outperformed its peers in the salty-snack category by more than 300 basis points in each of the past nine years. Growth in this category has been strong because more people are sitting down to eat fewer traditional meals together, resulting in more snacking. With a focus on salt as opposed to sugar, the category has not been as hindered by health-and-wellness

trends. PepsiCo has a 60% market share in salty snacks, with 10 times the volume of its next biggest competitor. We continue to like the stock.

Portfolio Activity

- Over the past few months, we have increased our cyclical exposure through selective new positions in the industrials and consumer discretionary sectors. Within industrials, we added holdings in companies that have solid balance sheets, competitive product line-ups and have shown strong relative performance in similar environments in the past. In consumer discretionary, we introduced positions in newer economy companies that have seen their business models accelerated by COVID-19 and are in a good position to retain much of this business – and should continue to grow at high rates after the crisis.

Outlook

- As the global economy slowly reopens, we continue to see leading indicators not only moving higher (from admittedly very depressed levels) but also broadening in scope. We understand there may be setbacks along the way, but have identified a number of opportunities for relative performance, based on themes and outcomes with respect to COVID-19 and its ongoing impact on economic activity. We believe this will benefit equity investors, particularly against the backdrop of a pro-cyclical impulse in the broader global economy. Where many investors tend to focus on large benchmark weights, we believe a willingness to dig deeper will provide ample opportunities to drive alpha from security selection.

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

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