Market Commentary
First Quarter 2018

PICTON MAHONEY
Asset Management

Synergy Global Corporate Class

The MSCI World Index (in U.S. dollars) experienced its first quarterly decline in eight quarters. A number of factors contributed to the weaker performance, ranging from weaker global macro trends, increased talks of protectionism, technical crowding, momentum unwinding and tighter liquidity. These headwinds come at a time when equity valuations are rich and the economic recovery has been one of the longest in modern times. Given this dynamic, investors have drifted away from the "buy the dip" mentality that has prevailed for much of the past decade.

If we look purely at sector performance, it points to a healthy market where late-cycle sectors (consumer discretionary, financials, industrials and technology) outperformed rate-sensitive sectors (telecommunications and staples). However, much of this relative performance occurred in January when the MSCI World Index gained 5.3%, the biggest monthly rally since late 2015. That was before the U.S. government talked about trade tariffs, before global Purchasing Managers Index weakness spread from Europe to Asia, and before volatility resurfaced after being suppressed to all-time lows last year. While some of the other factors may be more temporary in nature, it appears that higher (more normal) volatility will persist for longer and create a better environment for active managers.

Performance

For the first quarter ended March 29, 2018, Synergy Global Corporate Class returned 0.65%. The fund's positioning in information technology detracted from relative performance. The largest individual detractors were Greencore Group and Conviviality. Our positioning in consumer staples and materials added to relative performance. Top-performing holdings were Zoetis and Salesforce.com.

Outlook

As noted above, recent volatility affirms our view that we are entering the late cycle or topping phase of the market. As such, we maintain a keen focus on security selection around our commitment to growth and positive change. Conversely, we actively avoid sectors and themes that are exhibiting negative change, especially when coupled with nascent signs of financial stress. Just as consumer leverage in Canada is a major component of consumption-led growth, we see a parallel within Canada's public companies whereby increasing financial leverage (debt largely taken on to fund share buybacks and increase dividends in many cases), could be the factor that makes Canada a far less compelling "relative value" trade within a broader global equity portfolio. This is likely the case for smaller issuers.

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Class F Returns (in %) as at March 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Synergy Global Corporate Class	0.9	9.6	6.2	13.5	7.2