Market Commentary
Third Quarter 2020

PICTON MAHONEY Asset Management

Synergy Global Corporate Class

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Class F returns (in %) as at September 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-11-30)
Synergy Global Corporate Class	7.2	13.4	9.0	8.2	11.3	4.9

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

Market Overview

- Six months ago, after the pandemic hit and countries around the world went into lockdown, equity markets responded rapidly by pricing in a sharp and short recession. The S&P 500 Index bottomed at 2,200. Despite the horror of one million deaths at the hands of the virus, the collapse of the global gross domestic product, and a 50-million increase in unemployment in the United States, we witnessed one of the market's all-time great rallies driven by apocalyptic positioning and unprecedented policy response – both fiscal and monetary. A weeding out of the strong versus weak companies that has taken place over the past 10 years went into overdrive.

Performance Summary

- Over the third quarter ended September 30, 2020, Class F of Synergy Global Corporate Class (the Fund) returned 7.9%, compared with 6.0% for its benchmark, the MSCI World Total Return Index (C$).

- The Fund outperformed due to our underweight exposure to the energy sector and and overweighting in information technology, while our underweight position in materials detracted.

Contributors to Performance

- Among individual securities, the top contributors to our relative performance included Zoetis Inc. and DraftKings Inc.

- We have long had a positive outlook towards Zoetis Inc., an animal health medicine and vaccination company focused on both livestock and companion animals. Animal health is one of our favourite areas of the market. Unlike human pharmaceuticals, there is little generic risk and no government focus on regulating drug pricing. The long-term theme related to the humanization of pets is real. Gone are the days of the dog sleeping out in the backyard. Not only did they migrate inside, they now share our beds. COVID-19 accelerated the trend towards pet adoption and enhances the eventual market size. Zoetis has become more efficient and is seeing margins rise. On top of this we are seeing impressive innovation with the launch of Simparica trio, a three-in-one flea, tick and heartworm drug that is likely a multi-hundred-million-dollar business. We also believe the company has attractive prospects in parasiticides and biologics for both dog and cat pain. Zoetis also plans to make a long-term foray into the diagnostics space with its recent acquisition of Abaxis, Inc.

- We were early to recognize the DraftKings Inc. story, partaking just prior to its conversion from a special purpose acquisition company (SPAC). We were attracted by the large market opportunity in the United States for sports betting, which is becoming legal in various states. We believe this trend should continue as more states face deficits amid the fiscal devastation of the pandemic and look to sports betting to shore up government coffers. We felt the timing to invest was ideal. given the unique sports calendar that was developing over the summer months with the return to play for major league sports and playing to a captive (and bored) work-from-home audience.

Detractors from Performance

- The Blackstone Group Inc., Apollo Global Management Inc. were the biggest detractors from performance during the quarter, followed by Abbott Laboratories and PepsiCo, Inc.

- Blackstone and Apollo are alternative-investment managers, a sector of the wealth-management industry that was among the strongest subgroups in financials during the second quarter before falling back in the third quarter. The recent weakness was due to the increased odds of a Biden presidency and thus the potential for unfavourable tax policy. Additionally, Blackstone's relatively heavy real-estate portfolio has created some relative underperformance. We exited the position and focused on Apollo within this subgroup. We now are seeing some positive signs for Apollo and an acceleration in growth in their insurance fee-bearing assets under management. An associated company, Athene Holding Ltd., recently purchased a block of business from Jackson National Life

Insurance Co., and is currently in discussions to buy a block of fixed annuities from American Equity Investment Life Holding Co. We continue to have a favourable longer-term structural view on the sub-sector, as lower interest rates help drive increased allocation to alternative managers and large, diverse managers are seeing an increasing amount of flow as institutional investors are consolidating their assets with fewer managers.

Portfolio Activity

- Over the quarter, we increased our cyclical exposure, primarily through investments in materials and consumer discretionary. The new government fiscal packages, in conjunction with extremely accommodative monetary policies, have supported both infrastructure and consumer spending. This comes at a time when valuation for many of these businesses remain depressed. On the other hand, we have reduced our financials exposure, mainly through European banks. With long-term interest rates suppressed, these banks are finding it difficult to generate the type of earnings recovery experienced in previous cycles.

Outlook

- As we move through the fourth quarter and beyond, there is much to contemplate. We are focused on the massive stimulus applied globally to resuscitate economies battered by COVID-19 and whether this has achieved the desired effect. Broader measures of global growth show a sharp recovery, yet leading indicators remain below pre-pandemic levels. Asset markets appear priced for a better future, yet one crucial ingredient is still needed: a clear plan to open the U.S. economy with compliance to necessary protocols to keep COVID contained. The world has been eagerly anticipating the U.S. election, the outcome of which will have direct implications for investment themes and policy regimes -- and thus portfolio positioning. We believe we are on the cusp of a new cycle, but there likely will be fits and starts to endure before the markets get into gear and new themes like potential inflationary pressure take hold.

Source: Picton Mahoney Asset Management research based on raw data from Morningstar Research Inc., and Bloomberg Finance L.P.

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