REFLECTION

4th QUARTER 2021 REVIEW

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SUMMARY

AMETHYST ARBITRAGE FUND

While 2020 may have required relentless hard work to recover from losses caused by the surreptitious arrival of COVID-19 in the first quarter, 2021 also presented its fair share of events, sometimes unusual and each requiring a response. This included social networks being used to manipulate the stock markets, with surprising and sometimes worrying results. We also saw considerable volatility in the bond markets, as the comments made by central bankers sometimes defied analysis and provoked confusion. In short, 2021 was not short on drama, all the way to the finish line.

In the last quarter, the M&A business was affected by some unfortunate and unexpected events. However, our varied strategies and many diverse positions produced a positive overall result. Here follows a closer look at how all this transpired.

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MARKET EVENTS

If there is one subject we never fail to mention, even at the risk of repeating ourselves, it is the importance we place on managing the risk in our portfolio of M&A arbitrage positions based on, among other things, solid diversification. This proved true once again in the last quarter of 2021, as well as the year as a whole. Despite carefully selecting which transactions to participate in, unexpected events torpedoed three of them in December, so of course this marred the portfolio's performance in the last quarter.

In the past year we took part in 143 transactions, 6 of which did not close . This represents a "mortality" rate of 4.2%, and while this may seem low, it is nevertheless slightly above our historical average. ***We anticipate that transactions sometimes fall through; this is an unavoidable fact in the M&A market, and we manage the portfolio accordingly.*** It certainly underscores the importance of sound diversification and good risk control.

A Very Active Canadian Market

We are looking forward to the year ahead, given what we are now seeing in the Canadian market. It is particularly encouraging to note that none of our Canadian transactions have fallen through. We believe that the Canadian market is safer and offers better profit margins. It is the one we know best and on which quality information is most readily available. And with the recovery of the commodities market, there is a growing number of attractive transactions that could be a good fit in our portfolio. We intend to take advantage of this environment.

CONVERTIBLE SECURITIES

We took advantage of the fourth quarter to crystallize our gains while eliminating marginally profitable positions from the portfolio, thereby bringing a good year to a close. We benefited from improved credit in the energy sector, as well as renewed volatility in the technology sector. And throughout the year, we made a carry gain on all of our investments in convertible bonds, while maintaining adequate hedge positions. So we ended the year having created plenty of room for new ideas and securing the ability to invest in the new situations that are sure to arise in 2022.

FROM July 1998 to Dec. 2021	ANNUALIZED RETURNS (%) *Net of all fees*						Volatility	Correl.	% Mths > 0	Sharpe Ratio
	1 yr	3 yr	5 yr	10 yr	15 yr	Incep.				
Amethyst Arbitrage Fund	**1.7%**	**2.5%**	**1.9%**	**3.9%**	**5.3%**	**7.4%**	**8.0%**	**-**	**73%**	**0.65**
HFRI - Global Fund Weighted	10.5%	10.9%	7.1%	5.8%	4.6%	6.5%	7.0%	0.48	66%	0.63
S&P/TSX Composite (TR)	25.1%	17.5%	10.0%	9.1%	6.5%	7.3%	14.8%	0.48	63%	0.35
EAFE World Equity (TR)	8.8%	10.7%	6.8%	5.2%	0.8%	2.3%	16.7%	0.43	56%	0.01
FTSE CAN Long Term Bond	-4.5%	6.4%	5.3%	4.8%	5.9%	6.6%	7.2%	0.13	61%	0.62

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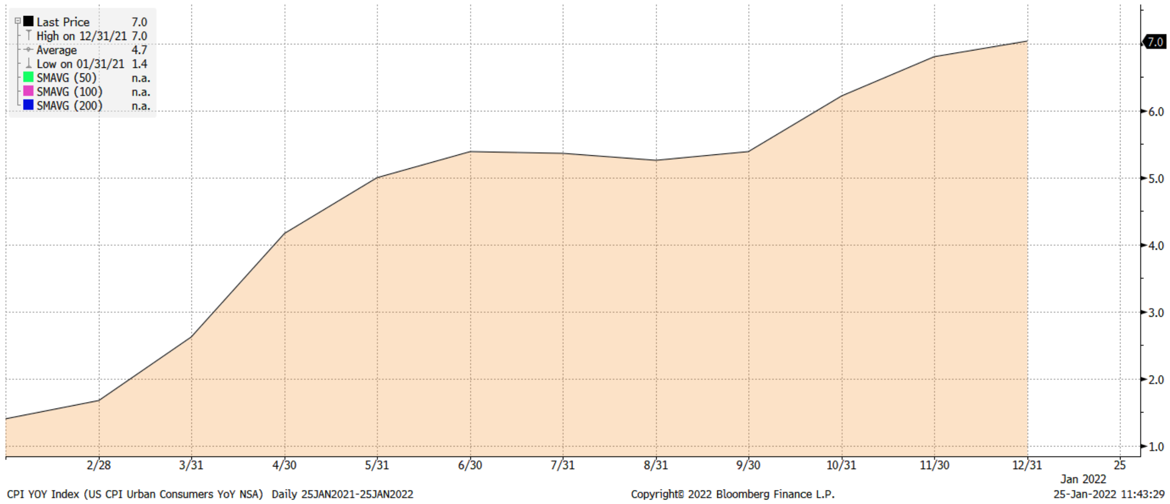
Consumer Price Index



We benefited from improved credit in the energy sector, as well as renewed volatility in the technology sector.

Good Risk Diversification

Sooner or later, higher interest rates will affect companies' estimates of expected cash flows, and many could be battered. To adequately diversify our risk, we plan to invest in variety of sectors this year. We will focus in particular on 3 to 5-year maturities, which will mitigate duration risk, and select primarily small and mid-cap companies, where easier access to management lets us better analyze quality.

New Issues Becoming Less Popular

For most of the year, we held off from taking part in new issues, mainly because of credit quality and market valuations and instead favoring opportunities in the secondary market. And we plan to continue playing it safe, since we have seen how investors are increasingly reluctant to commit to new issues and push prices higher.

During the last quarter, we avoided high-growth companies when their markets and profit potential had not yet been demonstrated and when their stock valuations had run away from the company's actual ability to generate profits. We are very careful to avoid such situations, as they could prove costly.

FIXED INCOME

Credit spreads did not manage to return to any logical framework in the last quarter of the year, although we believe that it is just a matter of time. The yield spreads on agency securities have yet to regain their rightful place on the credit curve. Even though they offer superior credit quality compared to provincial and corporate bonds, as well as better liquidity, agency securities have failed to generate a yield suitable for their rank. One explanation is that investors, discouraged by relatively low interest rates, prefer the highest-yielding bonds and are relatively unconcerned about quality.

A Situation That Still Defies Logic

Those of you who read this newsletter faithfully every quarter may feel that these explanations of the state of agency spreads are becoming somewhat redundant. Ever since the fall of 2020, it has been our belief that such securities offer the best opportunities in the credit spread market. Although the market has been slow to prove us right, we have seen nothing to make us change our minds.

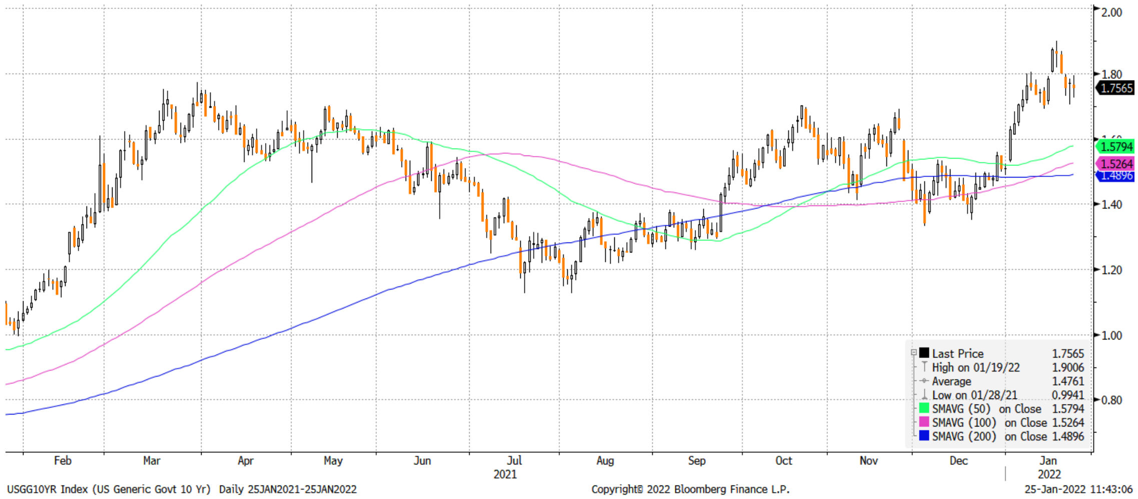
While credit spread arbitrage has historically been the most important driver of our fixed income operations, it posted a slightly negative performance in the last quarter. But this was offset by gains realized on our arbitrage operations on the yield curve and on duration.

As we start the New Year, we own long positions in federal agency securities and short positions in provincial bonds, as we still believe that the yield spreads between these two types of bonds will return to normal. In our view, a market in which agency bonds can be bought at a yield premium to provincial bonds of the same maturity is not sustainable in the medium to long term.

As for yield curve arbitrage, we begin 2022 with a slight bias toward a steepening of the curve. In Canada, movements on the short end of the curve have provided us with good arbitrage opportunities over the past few months, as market participants have disagreed on when the Bank of Canada will begin to raise interest rates. This situation may continue for some time, and we will try to profit from it as we did in the last quarter.

As for duration arbitrage, we are maintaining a short bias on U.S. short-dated bonds (2 to 5 years). We are encouraged by the fact that our three sub-strategies generated positive returns in December.

U.S. Treasuries - 10 Year Yield



THE ECONOMY AND FINANCIAL MARKETS

What more is there to say about the stock markets? They have defied all the reasons that could have stopped this bull market, delivering a three-year performance that outpaced any other in the last 20 years. And this was despite the arrival of COVID-19 and the waves of variants that followed. The S&P 500 Index rose nearly 27% in 2021, with the total return (including dividends) up over 25% for the S&P/TSX.

In addition, central bankers have now begun normalizing monetary policy, so interest rates will inevitably rise in the coming months. The effects of this are becoming apparent in the bond markets, resulting in underperformance for 2021 as a whole. In Canada, the Universe Index delivered a negative 2.8% yield, while in the U.S., the J.P. Morgan Index was down 5%. While strategists agree that equity returns will be markedly lower in 2022 (between 4% and 8% for most of the major banks in both Canada and the U.S.), investors in bonds may be facing another year of negative yields if interest rates rise as expected.

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Inflation Up Sharply

The figures for the last few months unequivocally indicate that inflation is high in the U.S. Even if this proves to be only a temporary phenomenon, the authorities will have no choice but to vigorously address the problem. The year-over-year change in the Consumer Price Index (CPI) accelerated towards the end of the year, to 7.0% in December. ***Core inflation, which is the indicator that the U.S. Federal Reserve (the Fed) mainly monitors, rose from 4.9% to 5.5% in the last month and is now at its highest level since February 1991.***

The Canadian and U.S. economies ran rather hot in 2021, with corporate profits growing strongly. However, some of the year-end indicators suggest that we may now see a pause. Both industrial production and manufacturing output fell in the U.S. in December (by -0.1% and -0.3%, respectively). Consumer confidence only confirmed this gloomy outlook, with the University of Michigan Consumer Sentiment Index reaching 67.4 in November, for a 10-year low.

OUTLOOK

The Fed will begin a series of interest rate hikes, probably starting in March. The financial community is expecting three or four hikes during the year, and there has already been an appreciable impact on bond rates. As 2022 begins, the yield on 10-year U.S. Treasury bonds has reached 1.75%, 25 basis points higher than three months ago. Given the Fed's position on the fight against inflation, the yield on U.S. treasuries could soon reach 2.50%. At its December meeting, the Bank of Canada appeared cautious in its comments on the economic outlook, but no one should be surprised if our central bank quickly follows the Fed's lead, once the rate hikes begin south of the border.

Omicron

U.S. economic growth in 2021 is expected to come in at between 5.5% and 6%. In Canada, this figure will be between 4.5% and 5%. For 2022, we are looking at approximately 3.5% in the United States and 4% in Canada. Of course, the big unknown in any scenario remains the fight against the pandemic. The extent to which the omicron wave will be managed effectively will largely determine whether growth will confirm the forecasts or the situation will be complicated by more closures of certain sectors of the economy.

U.S. Politics

At this time last year, there was every reason to hope for a return to sound management at the White House, but in some respects the current situation gives as much cause for concern as ever. ***President Biden is struggling to rally his troops around his major economic projects.*** International relations are also increasingly strained, and solutions seem to elude him. In addition, this year's mid-term elections are likely to exacerbate an already confused political environment.

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