REFLECTION

4th QUARTER 2023 REVIEW

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SUMMARY

AMETHYST ARBITRAGE FUND

A major market rally in the last two months of 2023, in both the equity and bond markets, has left the impression that it had been a good year for financial assets. But without these two months, the results would have been quite lacklustre. Many investors are nevertheless now showing considerable enthusiasm for 2024, anticipating that central banks will soon begin a series of interest rate cuts. But we have our doubts.

Our Performance

Our results for 2023 reflect a prudent approach at a time when the markets lacked direction and were highly volatile. In this way, we successfully protected capital, but this defensive approach, and a few negative outcomes in the M&A and convertible bond segments left the fund flat for the year. In response, we have undertaken a number of initiatives to drive better results in 2024.

A Fresh Look

We have added a fresh pair of eyes to our front office and risk management functions. His presence on the team adds new perspectives and even greater depth to our management. We have done a thorough review of our portfolio and believe that we are well positioned to avoid problem situations and to generate solid returns going into 2024 despite continued volatility.

New Fund: Canadian Sovereign Bond Absolute Return (SBAR)

The sovereign bond segment of the portfolio delivered excellent results throughout the year. Positions designed to take advantage of several rare opportunities, such as a low-risk, high-reward defensive carry, generated the expected returns, and a steepening of the credit curve also delivered excellent gains. To satisfy a need on the market, last September we launched this strategy in a new standalone fund. The strategy delivered the expected results, returning +11.7% for the year or +700 Bps above the return from 3-month Canadian T-bills.

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MARKET EVENTS

The year was marked by a challenging M&A market, with investors needing to rapidly adapt to a changing environment. We nevertheless took part in 112 transactions, which is close to our historical average. Four of them failed, which again is only slightly above our average. One notable case involved Velan Inc., a Quebec-based company. Velan had received an offer that was subsequently withdrawn because the French government unexpectedly opposed the change of control to the U.S.-based buyer (the French government was only involved because Velan has a small subsidiary in France with a minimal interest in the nuclear industry).

Finicky FTC

Similarly, in the oil sector, although we have only very limited exposure, takeover bids from the giants Chevron and ExxonMobil continue to drag on after the Federal Trade Commission (FTC) issued a second request for information, which will undoubtedly delay its decisions by several months and add a good deal of uncertainty around whether the transaction will ultimately go through.

FROM Jul. 1998 to Dec. 2023	ANNUALIZED RETURNS (%) *Net of all fees*							Volatil.	Correl.	% Mths	Sharpe
	YTD	1 yr	3 yr	5 yr	10 yr	20 yr	Incep.			> 0	Ratio
Amethyst Arbitrage Fund - Cl. F	**0.2%**	**0.2%**	**1.2%**	**2.2%**	**4.9%**	**6.2%**	**7.5%**	**7.9%**	**-**	**73%**	**0.67**
HFRI - Global Fund Weighted	4.5%	4.5%	3.5%	6.5%	4.3%	5.0%	6.0%	6.8%	0.47	65%	0.55
S&P 500 (TR)	26.3%	26.3%	10.0%	15.7%	12.0%	9.7%	7.8%	15.9%	0.43	64%	0.32
S&P/TSX Composite (TR)	11.8%	11.8%	9.6%	11.3%	7.6%	7.8%	6.9%	14.8%	0.50	62%	0.32
EAFE World Equity (TR)	15.0%	15.0%	1.4%	5.4%	1.6%	2.8%	1.9%	16.9%	0.43	56%	-0.02
FTSE CAN Long Term Bond	9.5%	9.5%	-6.5%	0.6%	3.3%	5.0%	5.4%	8.2%	0.15	58%	0.39

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S&P 500 Index

Faced with these regulatory hurdles, the increasingly frequent delays they cause, and the failure of a few large transactions that appeared well structured, we decided to reduce the amount of overall capital allocated to this strategy as well as the size of each individual deal in the portfolio.

On the Bright Side – A Revival in the Resources Sector

However, we are confident about achieving our target returns in 2024. One bright spot is the appreciable increase in transaction volumes, and in particular in the resources sector, which we know very well. We will, however, continue to exercise caution and only deploy capital where and when the risk/return profile warrants.

CONVERTIBLE SECURITIES

Much like the M&A segment, the convertible bond segment closed the year with a flat return. Of course, we had to contend with considerable interest rate volatility. It should be recalled that before the bond market rallied in the past few months, it had been under pressure for most of the year.

Of the positions that weighed down returns in 2023, all but one – First Quantum Minerals – was liquidated. We believe that the bond has good upside as the events that disrupted their operations at its Panama mine may still lead to a favourable outcome.

We start the New Year with good liquidity, which will allow us to reposition ourselves in high-quality bonds with attractive coupons. There should be no shortage of opportunities in the year ahead, based on corporate financing needs. We should then be able to take advantage of more attractive credit spreads.

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FIXED INCOME

Our sovereign bond arbitrage strategy posted good returns throughout the year. The excellent results achieved in the last quarter are mainly due to continued gains from the strategy's positive carry, as well as to a normalization of segments of the credit spread curve, which narrowed, particularly on government agency securities. The credit curve is nevertheless still very steep, especially for 5- and 6-year maturities, such that it continues to offer very attractive returns on capital. We will therefore continue to hold our core positions at these maturities and which we expect to drive good returns going forward. These compelling opportunities are why we have increased the fund's total allocation to the sovereign bond strategy.

Excellent Capital Protection

We would also point out that our strategies provided very good capital protection in 2023. We had only one month of negative returns, while the DEX Universe Canadian Bond Index and the S&P/TSX Composite Index both recorded six months of negative returns during the year. ***For the most part, we kept to strategies that did not require the use of cash, ensuring that we could capture the return on T-bills in addition to the gains on our arbitrage strategies.*** Our portfolio proved to be significantly less volatile than the traditional bond indices. Our strategies delivered 700 basis points of added value over T-bills, compared to a historical average of approximately 430 basis points.

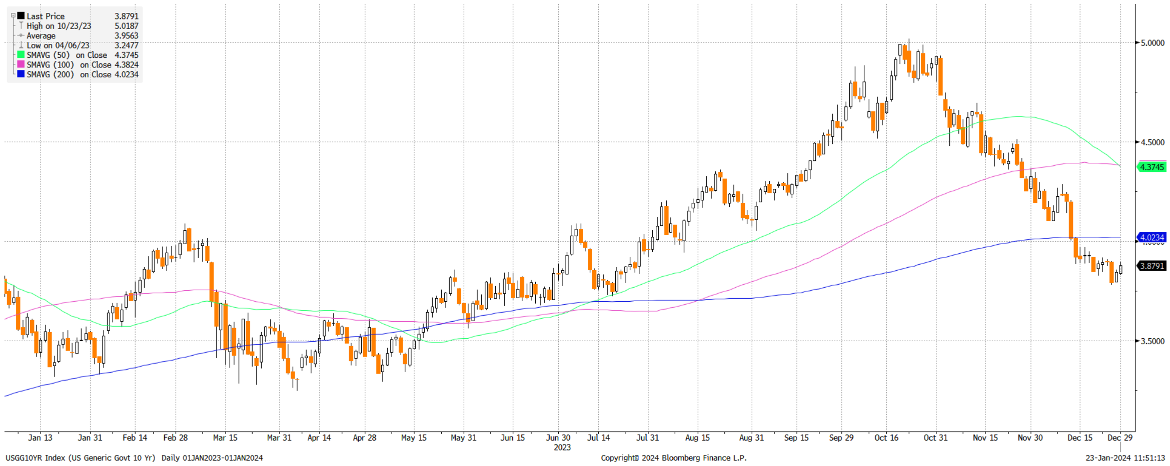
Good Results Should Continue

Looking to the year ahead, the strategy should be able to generate an attractive return, in part driven by its positive carry of 8% to 9% from the yield on T-bills, plus the roll-down (i.e., the capital gain generated by the natural compressions of bonds' credit spread as it approaches maturity), with the added potential for additional returns from strategic positions taken to profit from various market dislocations. This follows the +11.7% return achieved in 2023, despite the high volatility of the bond market, which is set to continue in 2024.

THE ECONOMY AND FINANCIAL MARKETS

For the most part, financial assets ended 2023 on a high note. The S&P 500 index of the U.S. stock market rose 11% in the fourth quarter, delivering a 25% return on the year. In Canada, the S&P/TSX

US Government Bonds - 10 Year Yield



index posted an 8% gain on the year, all of it generated in the last quarter.

Bonds also performed strongly at the end of the year. The yield on 10-year Treasuries fell 69 basis points in the fourth quarter, closing the year relatively unchanged from one year earlier. In Canada, an 8.15% gain in the last quarter gave the DEX Universe index a positive annual return of 6.69%.

OUTLOOK

Divining the Landing

At the start of 2023, economic forecasts for the year were tempered by the idea that the economy could suffer from sharp interest rate hikes and slip into recession. But the economy held up, and investor sentiment shifted several times during the year. But a major rally in the last two months of 2023 has transformed investor confidence. Some 70% of investors no longer expect that we'll see a hard landing; most believe that a series of interest rate cuts by central banks will ensure, if not a recovery, at least a soft landing. This position stands in stark contrast to the situation a year ago.

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We do not necessarily share this optimism. Instead, we see a good chance of a significant economic slowdown or even a recession. It is difficult to believe that the scale and speed of the interest rate hikes affected by central banks will not have caused real damage to the world's economies. Interest rates on the long end of the curve have risen sharply, which will only exacerbate deficits and debt servicing for all governments.

Beware of Rallies

Barring an unexpected event, there is general agreement that the latest cycle of rate hikes by the central banks is now over, and that a series of rate cuts should begin by this summer at the latest. History tells us that the first rate cut generally occurs six months after the last hike. The period between these two opposite movements is generally favourable to equity markets and to narrower credit spreads, lower bond yields and a steeper yield curve. But make no mistake.

Once the first signs appear of the recession we fear, investors will move quickly to flee risk. This means abandoning equities to take refuge in safe haven securities.

Numerous Geopolitical Risks

Two years ago, Russia invaded Ukraine. This past fall, we witnessed a terrorist attack by Hamas, the scale and violence of which came as a surprise to all market watchers. This renewed escalation of the Israeli-Palestinian conflict has led Israel to say that it will not rest until all Hamas fighters have been eliminated. And there are many other hot spots on the planet: one needs only think of the quarrel between Taiwan and China, which could flare up again at any moment, and the increasingly bellicose rhetoric coming out of North Korea.

In such an uncertain geopolitical environment and in the face of a worrying economic and financial outlook, we believe that the Amethyst Arbitrage Fund will appeal to investors who want to protect their capital and benefit from the potential for high returns provided by our non-directional arbitrage strategies, which are uncorrelated with the traditional asset classes. The Fund, it should be remembered, has been in existence for 25 years. It has weathered many crises during which it has always safeguarded capital, outperforming T-bills by at least 500 basis points – and this, while offering low volatility.