REFLECTION

2ND QUARTER 2019 REVIEW

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AMETHYST ARBITRAGE FUND

Not all accidents on the financial markets are avoidable. There were situations in the last quarter that tested our resilience. But once again, by diversifying the overall portfolio well and focusing on arbitrage opportunities day-in and day-out, we were able to post results that are, at the very least, acceptable.

MARKET EVENTS

Over the last few months we have had the impression that all the factors favouring mergers and acquisitions were in place, and we were right. Given the abundant liquidity and easy access to credit in a rather robust economy, many new transactions were announced. We participated in 33 of them. This clear recovery in M&A activity suits us well, though we are always cautious when investors start hiding excess cash in M&A deals.

Despite the large number of opportunities, deal margins have remained relatively narrow. Several current transactions closed during the quarter, and many investors with excess cash reserves have found themselves chasing after the same opportunities to reinvest capital.

Nasty surprise

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The quarter was shaping nicely when one of our investments gave us a nasty surprise that would wipe out the otherwise good performance in May. BBX Capital Corporation, based in Fort Lauderdale, Florida, announced on May 22 that it was withdrawing its offer to purchase the 10% of Bluegreen Vacations Corporation shares that it did not already own. Since this transaction appeared to carry very little risk, we had accumulated a significant position. Unfortunately, when Bass Pro Shop, one of Bluegreen Vacations' main distributors, announced that it was cancelling its partnership with Bluegreen, BBX withdrew its offer, effectively erasing half the value of Bluegreen's shares. Shortly after, Bluegreen and Bass Pro entered into a settlement causing the stock to partially rebound, paring our losses.

Although unpleasant, we always expect a certain number of these types of deal failures and through the diversity of our positions and appropriate risk management, we are able to limit the negative impact on the overall portfolio. While Q2 performance for this segment was below our target, we expect that good levels of new deal-flow and higher overall market volatility will provide ample opportunities going forward.

CONVERTIBLES SECURITIES

We were kept busy during the quarter trading bonds related to mergers and acquisitions transactions, adding approximately 60 basis points to the Fund's performance in the second quarter. We held as many as 21 positions during the quarter. Only one resulted in a loss, and it was very small.

Overall, the convertible bond portfolio performed well during the quarter: we collected our interest coupons while benefiting from the volatility of our underlying equity hedges.

FROM July 1998 TO June 2019	ANNUALIZED RETURNS (%) *Net of all fees*						Vol.	Correl.	% Mths > 0	Sharpe Ratio
	1 yr	3 yr	5 yr	10 yr	15 yr	Incep.				
Amethyst Arbitrage Fund	**2.4%**	**4.2%**	**6.3%**	**7.4%**	**6.7%**	**8.0%**	**7.6%**	**-**	**74%**	**0.76**
HFRI - Global Fund Weighted	1.6%	5.1%	3.0%	4.7%	4.8%	6.1%	6.6%	0.42	67%	0.58
S&P/TSX Composite (TR)	3.9%	8.4%	4.7%	7.8%	7.4%	6.5%	14.5%	0.44	62%	0.29
EAFE World Equity (TR)	-1.9%	6.1%	-0.5%	3.9%	2.5%	1.6%	16.5%	0.41	56%	-0.04
FTSE CAN Long Term Bond	11.4%	4.4%	21.8%	10.8%	7.3%	7.0%	6.8%	0.03	61%	0.69

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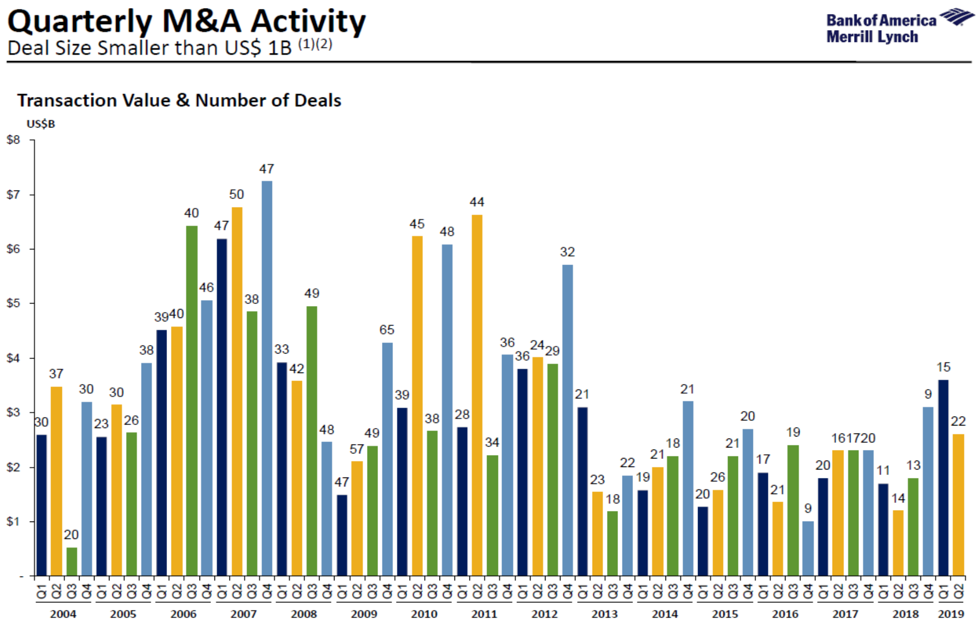

However, one of these positions stunted some of our gains when, even though the company was well-capitalized, it fell victim to a commodity price collapse. It will likely need to restructure, which will have uncertain consequences to the company's capital structure. Our hedges were nevertheless able to preserve a good portion of our invested capital, but ultimately we had to record this position at market value. While the final chapter in this story remains to be written, there is little hope of a substantial recovery.

Surprising performance

Somewhat surprisingly in the U.S, our positions in deep in the money convertible bonds which act as put option have appreciated in value, despite the strong upward trend in the equities market. We would have expected to incur a loss in this type of market, but the premiums for these options have increased due to the sheer number of buyers.

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In Canada, we continue to pay close attention to credit quality, hunting for securities that provide good value and present an asymmetric relationship between the bond price and the price of the underlying stock. In addition, we strive to diversify our investments as much as possible among the various industries in order to avoid being overexposed to an industry whose cycle could change course.

FIXED INCOME

In the last quarter the fixed-income market was marked by strong expectations of interest rate cuts by the U.S. Federal Reserve (the Fed) and the rather accommodating stance adopted by most of the major central banks. This allowed bond yields to continue on a downward trend. These declines shifted the yield curve and allowed credit spreads to narrow, especially in the quarter's last few weeks.

In Canada, the yield curve flattened at a time when overall favourable economic data was supporting short-term interest rates and when rates on bonds with maturities of 5 years or more were falling. This stood in sharp contrast to the situation in the United States, where the yield curve steepened in response to expectations that the Fed would cut rates, driving strong demand for short-term securities.

Taking profits on credit spreads

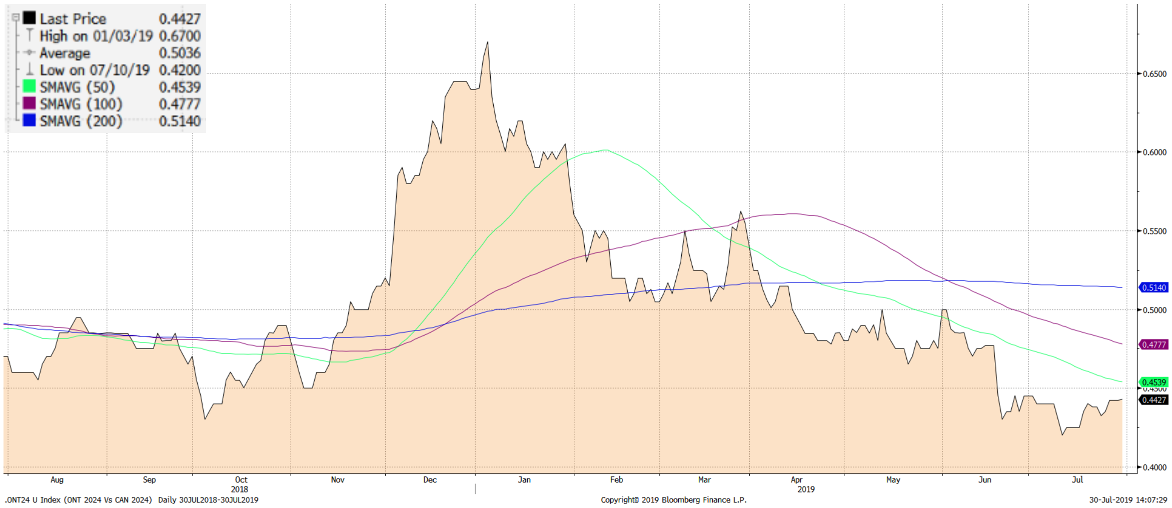
There is a strong impression in the market that the Fed is likely to lower interest rates more than once before the end of the year. This has sparked optimism among investors, who have been buying North American risk assets across the board. Following a marked surge in June, credit spreads were narrower at the end of the quarter than they were at the start. In the last few weeks of June we took advantage of this spread compression to take some profits. The timing seemed right to scale back our credit exposure, given that spreads were back in the historically expensive range of 0.5 to 1.5 standard deviations. These transactions made a positive contribution to the quarter's results. We now hold a short position in credit.

As for our longer-term positioning, we have been holding a long position since last November. This delivered a positive return once again this quarter. Given that the tone at the central banks increasingly suggests a relaxation of monetary policies, we plan to maintain the status quo and hold onto our positions, at least for the time being.

Although the fixed income arbitrage segment had a positive overall contribution, our yield curve arbitrage activities were less successful. Taken together, our long positions in Canadian bonds vs. U.S. bonds across the curve, as well as those based on a flattening of the curve in the Canadian market, contributed to a slight loss. However, we are still convinced of the relevance of these positions and will continue holding onto them for now.

We have been talking about the need for caution for a few quarters now, and this is as true now as before. We plan to keep our value at risk (VaR) at the lower end of our historical range.

5 Year Provincial Credit Spreads



THE ECONOMY AND FINANCIAL MARKETS

State of the economy

The global economy has continued to grow, but the pace of growth has slowed from 4% in 2017 to 3.3% this year (as estimated by the International Monetary Fund). In the United States, second-quarter growth is not likely to match the 3.1% expansion recorded for the first quarter, and will likely clock in at close to 2%. In Canada, second-quarter growth will have been approximately 1.5% following a weak showing in the first quarter.

The future of trade between the United States and China remains uncertain. Discussions were completely shut down in May, and now the word is that they may be relaunched as a result of the G20 meeting in June. In this affair, the outcome is anybody's guess. This is especially true since China's leaders appear to be unimpressed by the American President's moods, and they do not like being told what to do.

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Among the various indicators consulted by financial market participants, the New York Federal Reserve calculates an indicator of the likelihood of a recession in the United States within the next 12 months. The institution now estimates the chances at 30%. Although this risk still appears to be relatively low, it represents a significant jump from around 15% over the last few years.

Change in direction at the Fed

At the end of the Fed's meeting on December 19, the median of members' projections indicated that the institution would probably implement two hikes in its target rate for federal funds in 2019, followed by another increase in 2020. A few weeks later President Jerome Powell changed his mind, making this out of the question. In fact, based on current activity in the financial markets, the U.S. central bank is now expected to make two rate cuts before the end of the year. The new all-time highs reached by U.S. equity markets seem to be a direct result of this change of course at the Fed.

OUTLOOK

Unjustified excess usually precedes a crisis

Poor knowledge of how the economy actually works, and possibly some bad faith, is placing the President of the United States in direct and open conflict with the Chair of the Fed over how American monetary policy is being conducted. President Trump's desire to see interest rates lowered is clearly aimed at creating an economic climate that will support his re-election in November 2020. The lack of inflation allows him to state, to anyone interested, that interest rates are too high. The Chair of the Fed does not seem to want to challenge him on this.

For several years now, globalization and computerization have been preventing any upward pressure on consumer prices. First, globalization has enabled citizens in the developed countries to buy goods manufactured in less developed countries at much lower cost. But technological change has also dramatically driven down the prices of computers and robots, even while they continue to get more powerful. As a result, consumers have turned to e-commerce, comparing prices and choosing goods with the best value for money. The effect of these practices on inflation is clear. The inflation rate on goods remains at 1%, while that on services, which are less subject to international competition, is 3%.

But in this inflation-free environment, President Trump could become his own worst enemy. By waging a tariff war, he is turning out to be a fierce opponent of globalization. Tariffs can only feed inflation. In addition, implementing tax cuts in a full-employment environment will likely lead to higher wages and costs in the long run.

The day that the first signs of inflation appear, the euphoria in the stock and bond markets may well come to an abrupt end. It is difficult to predict exactly when this will occur but what is likely, if not certain, is that the drop-in markets will be brutal.

Beware tensions with Iran

In geopolitics there are several factors deserving close attention in the third quarter. First and foremost, there is the Iran situation. There is a growing number of incidents involving maritime traffic in the Strait of Hormuz, the route taken by oil shipments from the Persian Gulf. The American strategy has been more confused than ever because, a few weeks ago and at the last minute, President Trump cancelled the targeted strikes on Iran that had been suggested by his military advisers. In Tehran, President Rohani appeared to be distinctly unimpressed.

There is also the issue of budgets in Europe. Italy remains at the centre of the tensions, although a recent opening by the current government has slightly eased tensions. And, of course, there is Brexit. What does the new Prime Minister Boris Johnson have in store for us? One thing is for sure: we will need to keep a close eye on this situation.