REFLECTION

1st QUARTER 2022 REVIEW

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SUMMARY

AMETHYST ARBITRAGE FUND

What a Quarter!

Not often do we see the equity and fixed income markets both post losses - even small ones - in the same quarter. But that was the case last quarter, and the losses were significant: approximately 5% on the S&P 500 and Dow Jones indices, and over 9% on the Nasdaq. Canada's stock market nevertheless posted a healthy gain of over 3% due to the heavy weighting of the commodities sector. But it was the exception.

The situation was even worse in the bond markets. A sharp rise in bond yields, which peaked in March, resulted in negative returns of around 7% on the bond indices. Conservative investors who held balanced portfolios of stocks and bonds in this period suffered sizeable losses.

Uncorrelated Asset

Once again, the Amethyst Arbitrage Fund delivered an attractive performance to investors as a result of our diverse arbitrage strategies paired with judicious risk management. This quarter has clearly shown how holding a fund that is not correlated with traditional stock and bond indices can be worth its weight in gold in a period of volatility like the one we just experienced. Now let's take a closer look at how this atypical quarter unfolded.

MARKET EVENTS

Volatility in the stock markets did not dampen activity in the mergers and acquisitions arena. The market was active right out of the gates, paving the way for us to take part in 32 new transactions, a quarter of which were in Canada.

This volatility served us well. On several occasions, it allowed us to increase our positions when spreads widened as investors fled risk, and then trim them back when markets recovered. We were able to crystallize some profit and build up a cash reserve, then add back the position when the opportunity presented itself again. This shows how buying when the market is down and selling when it goes up again, can also apply to certain arbitrage strategies.

A Cautious Approach, Nonetheless

There were no bad endings during the quarter, as our focus was on deals that were expected to close within three months. In addition, we did not hesitate to trim positions on the first hint of danger. Given the volatility in the bond market, we also limited our participation in deals where the buyer was a private equity fund, in case the financing of such purchases through the issuance of junk bonds would suddenly fall through in this environment. All in all, the year is off to a promising start.

From July 1998 to March 2022 (Class F)	ANNUALIZED RETURNS (%) *Net of all fees*							Volatil.	Correl.	% Mths > 0	Sharpe Ratio
	YTD	1 yr	3 yr	5 yr	10 yr	20 yr	Incep.				
Amethyst Arbitrage Fund - Cl. F	**2.3%**	**5.9%**	**3.4%**	**2.8%**	**4.5%**	**7.1%**	**8.1%**	**8.0%**	**-**	**75%**	**0.75**
HFRI - Global Fund Weighted	-0.4%	4.7%	8.8%	6.5%	5.3%	5.7%	6.4%	6.9%	0.47	66%	0.62
S&P 500 (TR)	-4.6%	15.6%	18.9%	16.0%	14.6%	9.3%	8.0%	15.4%	0.43	65%	0.36
S&P/TSX Composite (TR)	3.8%	20.2%	14.1%	10.3%	9.1%	8.1%	7.4%	14.7%	0.48	64%	0.36
EAFE World Equity (TR)	-6.6%	-1.2%	5.2%	4.0%	3.5%	3.2%	2.0%	16.6%	0.43	56%	-0.01
FTSE CAN Long Term Bond	-13.4%	-7.4%	-0.8%	1.9%	3.4%	6.1%	5.8%	7.4%	0.12	60%	0.51

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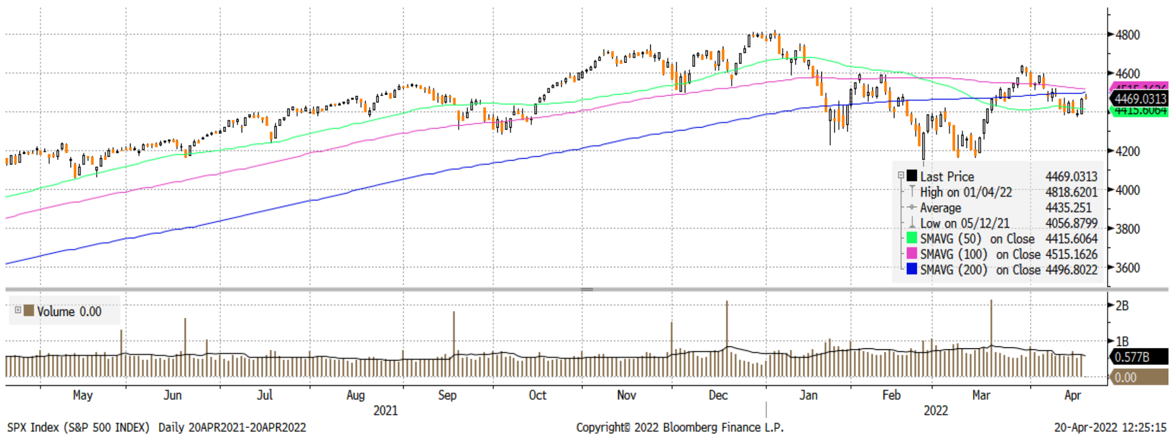
S&P 500 Index



CONVERTIBLE SECURITIES

Tactical Investing at the Fore

During the last quarter it was more important than ever to make a distinction between tactical investing and strategic investing. Tactical investing involves making decisions by anticipating price movements in the near term. It is rather active and differs from strategic investing, which is fundamentally passive. ***A volatile environment, such as the one we had last quarter, is conducive to tactical arbitrage investing, which is our specialty.***

Being Ready for Anything

The causes of this volatility were many. There were the imminent interest rate hikes, as well as the war in Ukraine, which was so clearly signaled ahead of time but still seemed to take many market watchers by surprise. Even though inflation was known to be on the rise, the jump surpassed all expectations. And then there was China's positions on many economic and health issues. Given all these factors, one had to be prepared for anything and adopt positions in anticipation of violent market reversals. This was the key to our success in the last quarter, and it proved to be a good fit with our arbitrage strategies, which profit from uncertainty and wild price swings. In short, the period called for a tactical approach.

Obviously, we do not always come out on the winning side. But our batting average in the last quarter's volatile environment was 3 out of 4. So our results were very good in an environment where convertible bond funds did not fare all that well, much like most of the traditional asset classes.

Very Good Quarter

We started the quarter somewhat cautiously, expecting considerable volatility and preparing to take advantage of it. We moved slowly in January, using limited risk. Things picked up in February, when we added several positions, mostly related to market events. Then in March we took advantage of the volatility and tactical opportunities, while rebalancing several positions on convertible securities. This was without altering either the size or diversification of our portfolio, both of which were satisfactory.

Of course, we stuck to our objective of capital preservation throughout the quarter.

FIXED INCOME

The dislocation in government agency spreads, which we have discussed in this report on several occasions over the past year, continued during the first two months of 2022 as part of a general widening of credit spreads. This prompted us to substantially reduce our risk envelope in February as protection against volatility. We nevertheless incurred a loss in our credit arbitrage segment, but this was largely offset by gains on the yield curve and in duration arbitrage.

Encouraging End to the Quarter

In March, we reversed course and began expanding the risk envelope following a further widening of agency spreads and due to somewhat more stable equity markets. ***The month was marked by almost unprecedented volatility in the bond markets. Despite this, two of our three alpha drivers posted gains in March, for a positive overall result on the month.***

The fixed income arbitrage segment nevertheless posted somewhat negative results for the quarter as a whole. We were unable to fully recover a loss incurred in January, caused among other things by the continued dislocation in agency bond spreads. Credit spread arbitrage, a key driver for us historically, delivered positive results overall, but was offset by the dislocation in agency bonds, which has continued since the fourth quarter of 2020 and became more pronounced at the end of 2021.

Not Letting Our Guard Down Too Soon

The outlook for the next quarter looks very good: agency securities with maturities of six years or more, and with 10% to 15% returns on investment, present attractive arbitrage opportunities. In short, opportunities abound. We will continue to take a cautious approach, however, as we wait for more convincing signals about where markets for riskier assets are headed.

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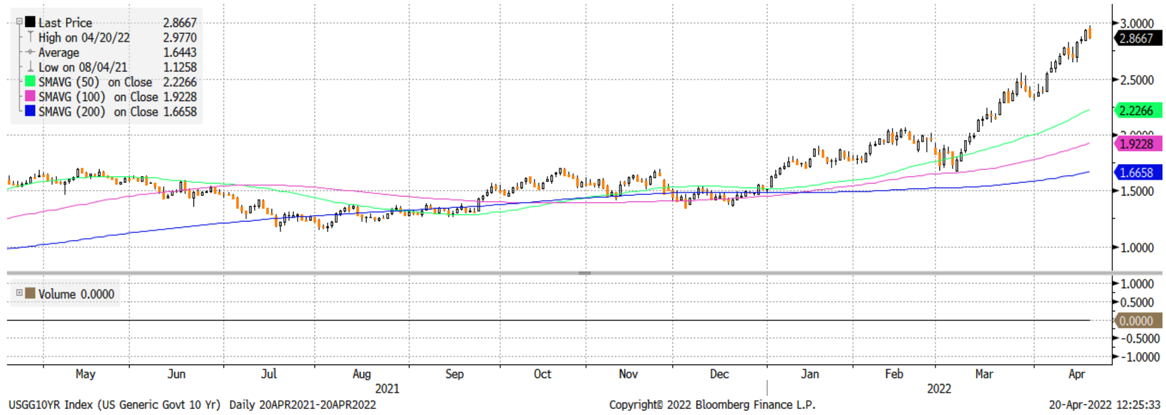
U.S. Treasuries - 10 Year Yield



THE ECONOMY AND FINANCIAL MARKETS

How Far Will Inflation Go?

The U.S. consumer price index rose to 8.5% on an annualized basis in March, to its highest level in 40 years. The same was true of adjusted core inflation, which now stands at 6.5%. Of course the war in Ukraine has not helped, driving up oil prices, which were already trending strongly upward due to economic recovery. Clearly, it is difficult to predict the ultimate impacts, in terms of inflation, of the extremely stimulating monetary and fiscal policies adopted by all governments and central banks over the past two years. Hopefully we will have a better sense of this soon.

Accelerating Cycle of Interest Rate Hikes

The magnitude of price increases now ensures that the central banks will accelerate the cycle of interest rate hikes. Developments in the financial markets suggest that the U.S. Federal Reserve (the Fed) will raise its target range for the federal funds rate by 50 basis points (0.50%) at its next two meetings and by 25 basis points (0.25%) at each of its other meetings between now and the end of the year. This is sure to keep volatility high in the fixed income markets.

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Geopolitical Uncertainty

Russia's invasion of Ukraine on February 24 quickly became one of the worst geopolitical crises since the end of World War II, and it may seriously disrupt the world economy, which had been enjoying a good post-pandemic recovery. Clearly the Russian army has not had the success it expected. Instead of a quick resolution, the combatants now find themselves in a potentially protracted war. And the longer this goes on, the more disastrous will be the war's impact on global economic growth.

OUTLOOK

Tough Times Ahead for Households

Rising oil prices, as well as rising food and housing prices, will make household finances much tighter in the coming months. And that's not counting higher interest rates, which will soon affect individuals if they do not quickly cut back on consumption. Households will have to live with inflation that outpaces income growth for an extended period of time. This has already been the case for the past few months, and the phenomenon could now become more pronounced if inflationary pressures persist. As long as employment is not overly affected by economic and geopolitical factors, household confidence should hold steady. But it could quickly weaken if the data point to a slowdown.

Zero-COVID Policy in China

How far will China go with its zero-COVID policy, now that several cities, including Shanghai, are facing outbreaks of the Omicron variant? Given the variant's highly contagious nature, Chinese authorities are ordering total lockdowns at the first sign of the virus. Should this situation continue, we should expect significant economic repercussions, and not only in China. ***A global economic slowdown is feared, given the major role that the region plays in supply chains around the world.***

These lockdowns also raise the risk that a new source of political instability will emerge. Officials are beginning to have problems managing the lockdowns in Shanghai and some other major cities, and there are now signs of public uprisings. Add to this the effects of the war in Ukraine, and we may see ever greater downward revisions to global economic growth forecasts.

Elections in the United States

We are now only six months away from mid-term elections in the United States. At risk are the Democratic majority in the House of Representatives and the equal number of seats in the Senate, a situation that gives the Vice President a deciding vote. Many observers fear that these majorities will swing in favour of the Republican Party.

Democrats are doing everything in their power to speed up the investigation into the January 6, 2020, attack on Capitol Hill, which is getting closer and closer to former President Trump and his inner circle. Can it be completed in time to affect the November election? Perhaps not. But it will certainly have further exacerbated the divide in American political opinion.