REFLECTION

3rd QUARTER 2024

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SUMMARY

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AMETHYST ARBITRAGE FUND

We are very pleased to report strong results at the close of the third quarter. With three months left in the year, all our main arbitrage strategies have all contributed to this success, helping us achieve a year-to-date return of approximately 10%. These results validate our cautious opportunistic approach in the face of an uncertain economic environment and challenging outlook for central bank monetary policy. On several occasions we've emphasized our commitment to protecting your capital, even if it means occasionally forgoing some returns. **Today, we see how this prudent approach has served us well, and our performance provides objective proof of its value.**

The months ahead also look promising. We expect continued market volatility, with the recent central bank interest rate cuts providing us with a strong tailwind. At the same time, we will be exercising caution, recognizing that equity market valuations are at historically high levels and a sharp correction could occur at any time, given the highly uncertain political and geopolitical climate.

Our Long-Term Strategies

These factors underscore strength and value of well hedged arbitrage strategies, in both the equity and debt markets, enabling the Amethyst Arbitrage Fund—which includes the Canadian Sovereign Bond Absolute Return Fund (SBAR)—to effectively fulfill its role in our clients' portfolios. Our objective is to generate investment returns of 5% to 10% above the short-term benchmark interest rate (i.e., federal government Treasury bills) while preserving capital and maintaining a very low correlation with traditional asset classes like equities and bonds - and all the while reducing volatility, of course.

MARKET EVENTS

We maintained a caution approach throughout the quarter, adding only transactions that were expected to close by year-end. As the quarter progressed, however, the number of attractive M&A opportunities grew significantly, and we have benefited greatly from this turn of events. **In September alone, we added 13 new positions, a level of activity that we hadn't seen in over 18 months-prompting us to allocate additional capital to these strategies.**

Although the spreads on some transactions fluctuated considerably in response to the news flow, none of our positions failed to close during the quarter. Our strategy of focusing primarily on straightforward transactions, with minimal regulatory hurdles, proved effective. There were numerous transactions with these favorable characteristics offering attractive returns during the quarter, and we took full advantage of them.

FROM July 1998 to September 2024	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	**10.1%**	**12.3%**	**3.8%**	**3.4%**	**5.1%**	**6.3%**	**7.6%**	**7.8%**	**-**	**74%**	**0.69**
HFRI - Global Fund Weighted	7.8%	12.2%	3.8%	7.3%	5.1%	5.4%	6.3%	6.8%	0.49	65%	0.58
S&P 500 (TR)	20.9%	35.1%	11.6%	15.8%	13.3%	10.7%	8.3%	15.8%	0.43	65%	0.34
S&P/TSX Composite (TR)	17.4%	26.9%	9.6%	11.0%	8.1%	8.3%	7.3%	14.6%	0.50	63%	0.34
FTSE CAN Long Term Bond	2.2%	17.3%	-2.8%	-1.7%	2.4%	4.9%	5.3%	8.2%	0.15	58%	0.37

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Active Resource Sector

The volume of transactions announced in the resource sector continued to grow during the quarter as players looked to consolidate their assets, create synergies and optimize their financing requirements. This renewed activity is fertile ground for us, as we have considerable expertise in this sector, and the relatively low regulatory risk associated with these transactions.

CONVERTIBLE SECURITIES

Convertible securities and high-yield bonds were very volatile at the start of the quarter, creating attractive tactical opportunities. In response we stepped up our activity in these segments, capitalizing on these conditions. **Overall, a combination of lower bond yields, narrower credit spreads and greater market volatility provided an ideal environment for our convertible bond strategies.** This is because lower yields and tighter spreads lifted bond prices, while higher volatility increases the value of a convertible bond's imbedded conversion option. These converging factors allowed us to realize healthy gains and enhance the credit quality of our portfolio.

Good Market for New Issues

The new issues market was very active, mainly in August and September, and we took advantage of this situation to add several new high-yield bond and convertible security positions to the portfolio. At the same time, we trimmed or sold certain positions that had realized anticipated gains.

We expect to continue locking in profits during the final quarter of the year, which is historically very volatile. Additionally, we will continue to position our portfolios based on the outlook for 2025, which will begin to take shape in November in the wake of the U.S. presidential election. This period also brings new economic data, central bank news, and the publication of corporate earnings for the third quarter.

FIXED INCOME

Much like the first two quarters, the third quarter ended with a strong positive return for the Canadian Sovereign Bond Absolute Return Fund (SBAR). **Once again, our defensive carry strategy paid off and we successfully generated gains from our duration strategy.**

The Bank of Canada has cut its key interest rate three times since June, and this has clearly helped the Canadian bond market generate attractive gains. The FTSE Canada Universe Bond Index, which tracks the Canadian bond market, finally posted a positive return of 4.32% for the third quarter. Bond yields in the U.S. fell mainly in the segment 5-year-and-under, while the 10-year Treasury rose by 20 basis points. These rate movements steepened the yield curve, a trend observed in the bond markets of several countries following the implementation of more accommodative monetary policies.

While sovereign bond spreads remained relatively stable overall during the quarter, they did widen somewhat in August. Equity markets stumbled sharply at the start of the month, with the S&P losing almost 6% in a matter of days. This rekindled fears that the economy was in for a hard landing. This risk was quickly forgotten by the equity market, which recovered the ground lost and prevented any further widening of spreads.

Continuing in the Same Vein

Our game plan for the next quarter remains much the same since the beginning of the summer. The emphasis on defensive carry will continue to play a prominent role in our strategy. But we also intend to capitalize from the effects of swap spread compression, i.e., the difference between a swap's fixed rate and the yield of a Canadian bond with the same maturity. This narrowing of spreads makes credit products very attractive for bank treasuries, which should continue to drive demand for sovereign credit with maturities under 10 years. Within this framework, government agencies and provincial securities for 8- and 9-year maturities remain appealing.

THE ECONOMY AND MARKETS

Lively Equity Markets

It's easy to believe that the strong optimism seen in equity markets over the past year may persist, particularly with expectations of significant interest rate cuts in Canada, the U.S. and Europe. However, valuations in most sectors of the stock markets are now approaching historically unprecedented levels. **It's worth noting that the U.S. Federal Reserve (the Fed) is not known to cut interest rates in such an environment?**

This is especially true now, as economists appear to be downplaying the likelihood of a hard landing.

Beware of Complacency

Excessive investor complacency has frequently predicted major equity market corrections. While the triggers for these corrections may not necessarily give much warning, the risk remains ever-present, and we may well face increased market volatility over the coming quarters. By employing several diversified strategies and remaining tactical the Amethyst Arbitrage Fund is well-positioned to navigate these challenges effectively.

OUTLOOK

U.S. Presidential Election is Upon Us

It is difficult to discuss the economic and market outlook without mentioning the American elections on November 5. Each passing day adds more confusion around the outcome, not only of the presidential election but also in the two legislative chambers. It’s important to remember that the two parties have roughly equal representation in the Senate, while the House of Representatives currently holds a slight Republican majority.

There is no doubt that the 2024 election is being held in an extremely tense geopolitical context. The Israeli-Palestinian conflict is escalating across the Middle East, and the United States is struggling to navigate its position in this seemingly intractable situation. The same applies to Russia's invasion of Ukraine. While it seems quite clear which side the Americans should support in this conflict, at least one of the presidential candidates, rhetoric remains highly ambiguous, and whose actions if elected is anything but predictable. And this is without mentioning the growing likelihood of a Chinese attack on Taiwan.

Central Banks Still In the Hot Seat

The current economic climate is proving more favorable than many expected. More than three quarters of observers are now calling for a soft economic landing. However, the Fed's decision to begin trimming interest rates with a 0.50% cut may be sending a different signal. The Fed may have preferred to err on the side of caution, as inflation and employment indicators are still relatively volatile from one month to the next. The Federal Open Market Committee (FOMC) will hold two more meetings between now and the end of the year. The question is not whether it will lower its target for the federal funds rate again, but rather by how much. We should not lose sight of the fact that the Fed bases its decisions on changes in economic indicators.

The Bank of Canada (BoC) has lowered its policy interest rate by 0.25% on three occasions since the start of the summer and it is likely to continue to do so at its upcoming meetings (The BoC rate has been lower by 0,50 % on 23 October). The excessive inflation of recent years has virtually disappeared in Canada, enabling the BoC to remain steadfast in its pursuit of a neutral rate, which it estimates at 2.5% - 3.0%.