REFLECTION

3rd QUARTER 2020 REVIEW

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SUMMARY

AMETHYST ARBITRAGE FUND

Successful Third Quarter

Given that each of our three main strategies generated positive returns, we are well placed to end the year in positive territory, just as we had hoped at the end of the second quarter.

Although this last quarter was quieter than the previous two, the factors provoking considerable volatility in the financial markets – COVID-19, a highly uncertain economy, and the U.S. elections – are still very much with us.

We therefore believe that our investors' best interests over the next few quarters will be well served by the Amethyst Fund's approach, which is based on achieving an absolute return with less volatility.

MARKET EVENTS

Focused on New M&A Deals

The surge of COVID-19 infections at the end of March put a strain on numerous businesses, many of which were caught up in mergers and acquisitions. As a result, the transaction failure rate, or the number of transactions that fell through, rose substantially in the second quarter. We therefore decided to withdraw from all transactions announced before mid-March, i.e. before the health measures were implemented, and focus all our energies on new offers when we believed that the buyer had a of strategic interest. This approach served us well.

We participated in 27 new transactions in the third quarter, all of which were profitable.

First of all, it allowed us to avoid certain situations that are not working out well and that have ended up in court, or may go to court. But it also led us to participate in new transactions that have been, or are about to be, carried out within the expected time frame.

Beware the Second Wave

We participated in 27 new transactions in the third quarter, all of which were profitable. Our only regret is that we did not have access to more of them. If we have been reluctant to participate in any more, it is because we are avoiding transactions that are expected to take over four months to close – or at least we have limited such participation. This is because we fear that markets will again be weighed down by COVID-19's second wave, which unfortunately seems to have begun. So we will continue to exercise due caution through the latter part of the year.

FROM July 1998 TO Sept. 2020	ANNUALIZED RETURNS (%) *Net of all fees*						Volatil.	Correl.	% Mths > 0	Sharpe Ratio
	1 yr	3 yr	5 yr	10 yr	15 yr	Incep.				
Amethyst Arbitrage Fund	**-1.0%**	**0.2%**	**5.4%**	**4.4%**	**6.0%**	**7.5%**	**8.2%**	**-**	**73%**	**0.65**
HFRI - Global Fund Weighted	5.3%	3.1%	4.3%	3.7%	4.2%	6.0%	6.9%	0.50	66%	0.54
S&P/TSX Composite (TR)	0.0%	4.3%	7.2%	5.8%	5.6%	6.2%	14.9%	0.50	63%	0.27
EAFE World Equity (TR)	-1.8%	-2.0%	2.4%	1.7%	0.9%	1.4%	16.7%	0.45	56%	-0.05
FTSE CAN Long Term Bond	8.9%	9.7%	24.3%	12.0%	6.7%	7.1%	7.1%	0.13	61%	0.69

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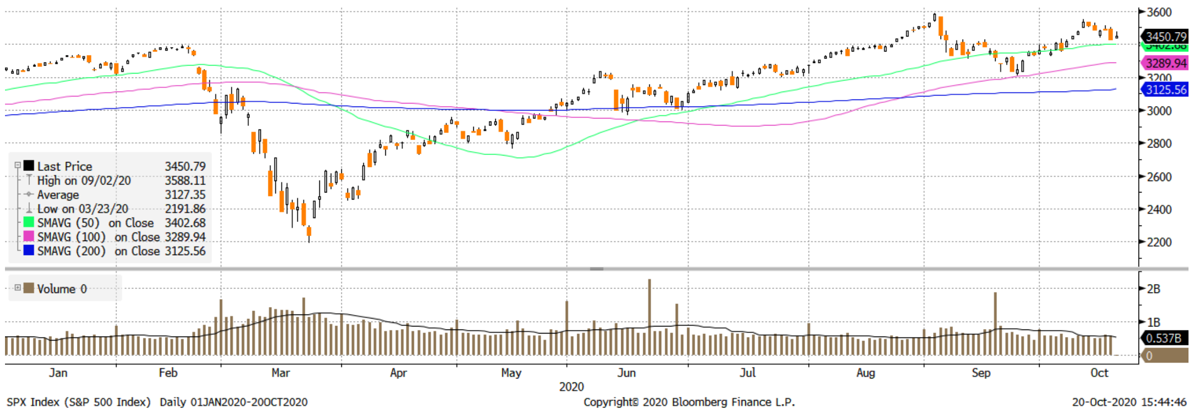
S&P 500 Index



CONVERTIBLE SECURITIES

A Brief Lift

The quarter got off to a good start, with a considerable amount of capital directed toward high-yield securities and new convertible bonds issued at attractive prices. But this exuberance faded fairly quickly. We had begun the quarter with several positions that were expected to deliver a positive carry over the long term. We quickly scaled them back, since the expected profits were soon realized as security prices fluctuated. We then focused on positions with a strong credit profile, while selling off short-term convertible securities and positions that were too capital-intensive. We also wanted to avoid the primary market, focusing instead on the secondary market where securities behave more predictably as conditions change in the market. Our transactions were profitable overall.

Shifting Investor Attitudes

Interestingly, we are seeing investors lose interest in pandemic-related securities, both those that were benefiting from the pandemic (such as online sales platforms and anything related to the Internet) and securities that were being battered by the pandemic and sold short (such as in the travel and entertainment sector). Investors are now turning toward companies whose prospects are less dependent on the twists and turns of the health crisis.

This suggests that investors have begun to look beyond the pandemic and focus on the long-term economic outlook.

We expect that governments will soon have much less flexibility, given the debt levels left by enormous pandemic-related expenses and the drop in tax revenues due to growing unemployment. In an environment so rife with uncertainty and volatility, we are maintaining a large capital reserve in case good opportunities arise for short- and long-term arbitrage. For now we believe that many investors will remain on the sidelines, waiting to see the outcome of the U.S. election. We will be on our guard. The idea is to move quickly when the time is right.

FIXED INCOME

Credit Spreads are Narrowing

Much like the previous quarter, in the third quarter demand for credit securities remained very strong, such that the Canadian market has seen more spread compression over the last three months. In the United States corporate spreads widened somewhat in September after two months of compression, during which the spreads on investment-grade securities narrowed from 150 to 125 basis points, only to close the quarter at 135 basis points. In Canada, agency securities are now trading at pre-pandemic levels, and provincial securities are trending in that direction. Interest rates remained very stable throughout the quarter.

Positive Contributions

All segments of our fixed income operations, both strategic and technical, made positive contributions to results. In terms of credit spreads, from the end of August to mid-September we even expanded our risk envelope from 40% to 50%, only to return to our initial positioning two weeks later after the spreads had performed well. However, it is worth noting that Canadian credit spreads are now almost all in neutral or expensive territory. We believe that spreads will not narrow much more this year.

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In the run-up to the U.S. election and given the volatility it could generate, we completed a few transactions to build liquidity in the portfolio, mainly by taking profits on certain less-liquid agency securities. This crystallization of profits, combined with a portfolio of moderate risk, leaves us well placed to deploy more capital once we have determined that the timing is right.

THE ECONOMY AND FINANCIAL MARKETS

A Surprising Recovery

In both Canada and the United States, the economic recovery took economists by surprise. It was led by several sectors, including retail sales, new home sales, housing starts and durable goods

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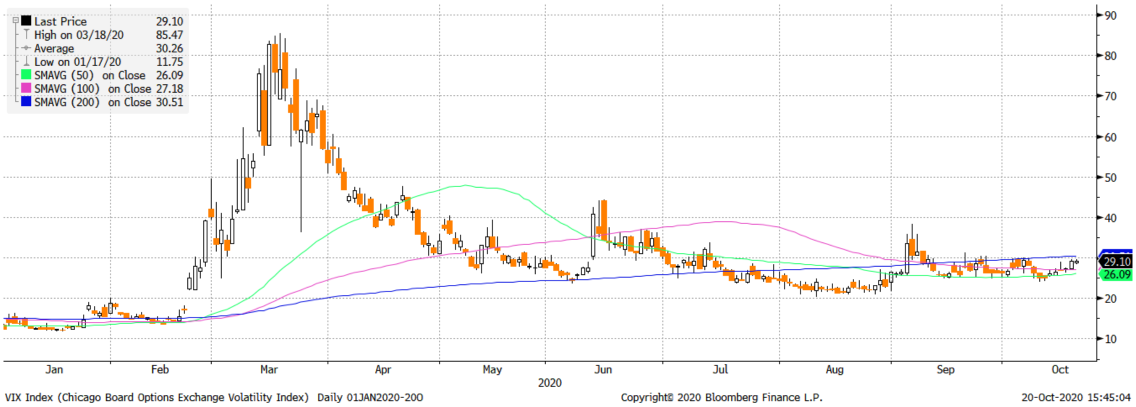
Chicago Board Options Exchange Volatily Index



orders. But what is even more surprising is the fact that employment in the United States is still down 7.6% from February, before the pandemic hit global economies with a body blow. The recovery south of the border is largely due to the U.S. government's quick response following the sharp drop in personal income caused by these job losses, offsetting these losses with emergency assistance programs. The Canadian government did the same, and millions of citizens benefited from unprecedented financial assistance. The central banks quickly followed suit, expanding their balance sheets by buying bonds in the markets. This kept interest rates low.

Better-than-Expected Outlook

This recent performance gives us hope that the economy will be in a better position at the end of the year than what has been forecast in recent months. In the United States, recent forecasts have suggested an over 5% decline in GDP, but now the consensus among economists is closer to 4%. The situation in Canada is similar: last month, recent forecasts had GDP declining by over 7%, while some now believe the actual figure could be less than 6%.

However, it remains unclear what will happen next, as the pandemic rages on. We now appear to have entered the second wave. Will governments and central banks still be able to mitigate its effects on the economy and on their populations' well-being? While the word from Canadian leaders is encouraging, the political calculations and machinations south of the border give more cause for concern. But we can be sure of one thing: given the public and private debt levels that the pandemic will have generated, it will likely be several years before economies will be able to fully recover.

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Persistent Volatility

This will probably go down in history as the year that stock markets experienced such a dramatic quasi-crash, followed by a rally whose vigour is still difficult to explain. But a few observations need to be made. The S&P 500, the flagship index of the New York Stock Exchange, rose 8.5% in the third quarter and even reached a new record high in early September. Despite this enviable performance, the VIX volatility index (also known as the "fear index") held steady in a range of 25% to 30%, which is well above its historical average of approximately 16%.

What the Recovery in Equities is Hiding

The 10 companies with the largest capitalizations in the S&P 500 now account for nearly 30% of its weight. This may obscure the true nature of this stock market recovery, which is closely tied to a few technology stocks that have performed spectacularly well in recent months.

While Apple's stock was up about 27% for the quarter, the stock of JPMorgan, the largest U.S. bank, stood virtually unchanged just a few days before the end of the quarter.

The U.S. bank's share price has risen by just over 30%, since the market bottomed out on March 23, but the market value of the iPhone manufacturer has doubled over the same period. It should therefore come as no surprise that many financial analysts and commentators are talking more about the tech bubble that occurred 20 years ago. The two periods are nevertheless difficult to compare. But the fact remains that there are certain similarities, suggesting that we should expect episodes of high volatility.

OUTLOOK

Markets and Taxation Following the U.S. Election

Rarely have we seen so much discussion about the American electorate exercising its democratic rights. This should not come as a surprise, given the extent to which the president's excessiveness and ineptitude have been exposed in recent months. Even if polls should be taken with a grain of salt, they are projecting a victory (perhaps even a resounding one) for the Democratic presidential candidate, and his party may even win a majority in the Senate.

What will happen in the financial markets? With the notable exception of the shock caused by COVID-19, stock exchanges performed particularly well during Trump's time in office. The major tax cut passed in 2018, directed at the wealthiest individuals and large corporations, was certainly a determining factor.

Paul Krugman, winner of the 2008 Nobel Prize in Economics and now a columnist for the New York Times, estimates that only 14 percent of the American population have stock holdings.

But it is precisely this minority that has benefited from the recent tax largesse. One might think that a Democratic President and a Democratic Senate would take a very different approach.

The Fed and the Bank of Canada Will Stay the Course

Paul Krugman says that, so far, the key economic indicators in the U.S. have only recovered about half the ground lost during the pandemic. And now the recovery appears to be stalling. Will a new government be able to instill renewed momentum? One thing is certain: the next leader will be able to count on a continued, very accommodating monetary policy. Jerome Powell, the Chair of the U.S. Federal Reserve, recently said that interest rates will remain very low until 2023. The Bank of Canada is sure to follow this lead.