REFLECTION

1st QUARTER 2020 REVIEW

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SUMMARY

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AMETHYST ARBITRAGE FUND

Even in an environment where equity markets were already shaken during the last 10 days of February, the Fund nonetheless posted an altogether very acceptable result, down barely 0.5% for the first two months of the year. But March would prove to be much more difficult.

The spread of COVID-19, first in Asia and Europe and then in North America, dragged stock markets into a downward spiral of rare severity and created almost unprecedented volatility in bond markets.

Governments and central banks responded predictably in a time of crisis, implementing a host of measures to support the financial system. But that did not prevent liquidity from disappearing from some markets as too many sellers desperately sought buyers, who were conspicuous by their absence.

As is generally the case when the market suddenly breaks down, the situation led to significant unrealized drops in value in the short term that we had to mark to market. These factors, combined with some transactions aimed at reducing our risk, largely explain the negative return recorded for March.

But we should not forget that Amethyst is an arbitration fund with long-term objectives. Historically, our level of volatility is only about half that of the stock market. As such, the Fund is an excellent substitute for bonds and preferred shares.

Given the free capital at our disposal and the diversification of our portfolio due to various investment strategies, we are convinced that we will be able to successfully chart a path through today's market conditions.

MARKET EVENTS

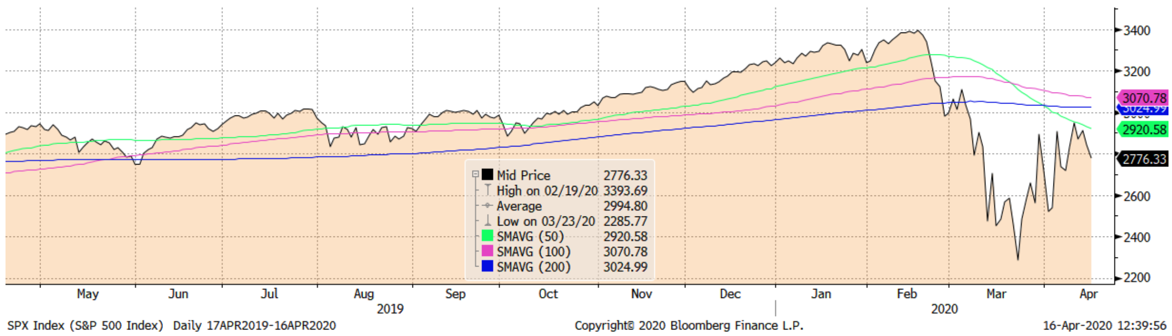
The first quarter saw conditions in the mergers and acquisitions market change radically from one month to the next. Too few of the transactions announced in January were attractive, as the margins were too narrow. We even went so far as to sell — albeit in small quantities — the targets of some transactions. This was because the expected returns seemed poor, based on the risk. Then in February the appearance of COVID-19 and fears around an ensuing economic slowdown brought spreads back to more normal levels, and we became somewhat more active in the market.

But real panic took hold in the markets over a 10-day period in March as news of the coronavirus spread. Markets were swept up in turbulence, just as they were in 2008 during the financial crisis. All opportunities for arbitrage were squeezed out. It soon became clear that a few of the positions we had recently acquired were at risk of not being realized and, as a precautionary measure, we decided to reduce the size of some of our positions.

We survived the storm, and we find that the experience gained in 2008 is serving us well today. With the shock of unexpected events behind us, any new transactions to be announced have an excellent chance of coming to fruition. What is more, the prices will reflect investors' perception that risk remains high, so the outlook on returns for these new deals will be very attractive. Furthermore, given the steep decline in some of the portfolio's positions, they now offer very attractive returns in relation to their respective risks.

FROM July 1998 TO March 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	**-13.8%**	**-4.0%**	**2.2%**	**3.5%**	**5.3%**	**6.5%**	**8.2%**	**-**	**73%**	**0.57**
HFRI - Global Fund Weighted	-5.1%	0.3%	1.1%	2.8%	3.9%	5.6%	6.8%	0.49	66%	0.48
S&P/TSX Composite (TR)	-14.2%	-1.9%	0.9%	4.1%	5.2%	5.4%	14.8%	0.49	62%	0.21
EAFE World Equity (TR)	-16.8%	-4.5%	-3.4%	-0.2%	0.2%	0.6%	16.7%	0.44	55%	-0.10
FTSE CAN Long Term Bond	5.6%	6.0%	21.8%	10.9%	6.5%	6.8%	7.0%	0.10	61%	0.65

S&P 500 Index



CONVERTIBLE SECURITIES

The convertible securities market was certainly not spared as the COVID-19 situation developed. Over the past month there has been a complete disconnect between the value of convertible bonds and that of their underlying shares. Many investors have seemed prone to panic. Global convertible bond funds incurred withdrawals of almost three-quarters of a billion US dollars, including US$250 million in the United States alone, during the week ended March 27.

Several indicators suggest that the worst of all this market dysfunction is now behind us, and that the negative outlook stemming from the current situation is probably already factored into prices. At current levels, some of our positions are valued as if the underlying asset is worthless, which is not the case.

As we move closer to finding a solution to the health crisis, the markets will return to equilibrium and our portfolio stands to benefit.

We were not caught up in the panic, and we did not sell. But we continued to revalue each position on an arbitrage basis, and based on the risk it posed to the portfolio as a whole. We had been expecting a market correction for some time. Admittedly, the fall was surprisingly steep, but we are nevertheless maintaining a good capital position, and at no time did it reach a critical level.

Our objective remains capital preservation as the world continues to search for a new normal.

Our convertible securities strategy incurred a 6% loss in March, but only a third of the losses cannot be recovered. The rest will depend on how this crisis plays out, something that will become clear in another two to four months.

Good opportunities abound in today's market. We have begun to deploy capital very selectively while maintaining a comfortable capital cushion. These new investments will pay off in the coming months. We will keep our focus trained on shorter-term situations to ensure that we maintain liquidity. This may keep us from taking advantage of certain opportunities where the returns will appear very attractive, but more importantly, it will allow us to sidestep unforeseen risks. This is how we believe that we can achieve steady gains over the next quarter, and beyond. Our objective remains capital preservation as the world continues to search for a new normal.

FIXED INCOME

The quarter was marked by unprecedented volatility in bond rates and a steep drop in demand for credit securities. This had a marked effect on our performance.

At the beginning of the quarter, demand for credit securities remained very strong despite the tightness of spreads. The idea of an economic slowdown was not on the radar of most investors. But when the fears that COVID-19 could spread far and wide proved well founded in February, those same investors became gripped with panic. Massive sales flooded the market with credit securities, propelling spreads to levels rarely seen. For example, in took just three weeks for spreads on U.S. investment-grade securities to rise from 100 to 400 basis points, or 3 times the historical standard deviation. In Canada, the spreads on agency and provincial securities doubled over the same period.

We had slightly increased our credit spread positions on agency securities at the beginning of the year, but this positioning could still be described as defensive in a normal environment. Despite this increase, our investments were limited to 40% of our available envelope, since we found the spreads very expensive. We massively reduced our positions in response to the sudden, dramatic change in market conditions that forced us to reduce risk. However, the speed at which spreads widened did not allow us to avoid a capital loss.

In addition, despite violent movements in the bond markets, we maintained our long positions in long-term securities, resulting in a gain that offset some of the losses on the credit spread positions.

We are keeping positions in investment-grade credit spreads in our portfolio, which we protect by selling spread positions in provincial bonds. We are waiting for the markets to calm down and want to see better returns before we reduce our hedge positions and redeploy capital.

We expect another period of high market volatility in the coming months.

For the time being, many questions remain about the length of the pandemic and its economic impact. There are few comparable situations in the past that we can draw on to better understand the current crisis.

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U.S. Treasuries - 10 Year Yield

THE ECONOMY AND FINANCIAL MARKETS

The annual growth of the Canadian, U.S. and global economies, which was uninterrupted over the past 10 years, will come to an abrupt halt in 2020. The toll on public health will be appalling, there is no doubt, and the pandemic will leave economic destruction in its wake that no economist could have foreseen. Health experts agree that the containment measures imposed on citizens and the business closures decreed by governments will eventually curb the pandemic. And most economists believe that fiscal and monetary measures will allow many businesses and individuals to get through this difficult period.

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If there is one thing that we can say for sure, it is that the economic cost of the pandemic will be enormous. Canadian, U.S. and global GDP will decline starting in the first quarter and fall dramatically in the second quarter. Many economic analysts hope to see more stability in the third quarter, followed by a vigorous recovery in the last three months of the year. Are these expectations realistic? Should we be concerned that the recovery will be much more difficult than that?

The stock markets took a hit in the first three weeks of March. The declines exceeded 30% on most stock exchanges and occurred at lightning speed. Then, on March 23 and following the announcement of major measures by the U.S. Federal Reserve (the Fed), the stock markets began a recovery that, at the time of this writing, has yielded rallies of 15% to 20%. This upturn gives hope to those market observers predicting a V-shaped recovery that will leave little trace on the value of stock market assets. Over the coming weeks and months we will see whether this hope is well-founded.

In Canada, plunging oil prices have added to the economic disruption caused by the spread of the pandemic, and will only make economic recovery more difficult.

Some economists are even suggesting that Canadian GDP could fall as much as 30% in the second quarter.

In addition, first-quarter results will likely be disappointing, due to the disruptions in rail transportation.

OUTLOOK

When and how economic activities will return to normal is anybody's guess. While our economic universe has been shaken, the events of the last few months have also weakened the political arena, mainly in the United States.

These events are taking place in an election year in the United States. The stakes are high for the current administration, as the President is primarily counting on a strong economy for electoral success. He will be sorely tempted to force a return to normal as soon as possible. This is already apparent.

Several missteps by the Trump administration have already complicated management of the health crisis in the U.S., which has become the epicentre of the pandemic. The decisions needed to stem the public health problems may not be the preferred line of action for some political leaders, who are focused on the hope of an economic recovery in the fall. This situation may be complicated by the partisan rift that has widened since Donald Trump moved into the White House. More than ever, partisan interests may prevail in political decision-making.

In a New York Times editorial, American political scientist Francis Fukuyama, a professor at Johns Hopkins University, is quoted as saying, "the nations best weathering the coronavirus pandemic are those like Singapore and Germany, where there is broad trust in government..."

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