Market Commentary
Third Quarter 2019

PICTON MAHONEY
Asset Management

Synergy Global Corporate Class

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Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (11/30/2000)
Synergy Global Corporate Class	14.3	1.2	8.2	8.3	10.3	4.5

Source: Morningstar Direct as at September 30, 2019.

Market Overview

- At the end of July 2019, the U.S. Federal Reserve (the "Fed") cut interest rates for the first time since 2008. Initially, equity markets were unclear about whether this was a one-off, mid-cycle adjustment or a real change in policy stance. The latter was confirmed when the Fed followed up with another cut in September as signs of further economic weakness emerged.

- The European Central Bank (ECB) also took drastic action during the period as the Eurozone economy faltered. The ECB lowered rates, re-started its quantitative-easing program, introduced tiering of deposits for European banks, and used forward guidance to signal its long-term intentions. However, ECB President Mario Draghi suggested he is only buying time and true fiscal stimulus is necessary to boost the economy. It is now up to the likes of Germany, the Netherlands and Austria to deliver on this front.

- These moves by the Fed and ECB led to some steepening of the yield curve and was partially responsible for the rotation out of growth/defensive stocks into cyclical sectors. However, this activity did not last long, given the weak economic backdrop and the many uncertainties that still overhang the market, including U.S.-China trade, Brexit and uncertainty over next year's U.S. elections.

- Trade negotiations between China and the United States continue to be volatile. While both parties contend that an agreement is within reach, they appear far apart on some of the key aspects of a deal. This uncertainty has affected business decisions in all regions.

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Performance Summary

- Over the third quarter of 2019, Class F of Synergy Global Corporate Class (the "Fund") returned 1.2%, underperforming its benchmark, the MSCI World Index, which was up 1.9% over the same period.

- The Fund underperformed primarily due to our underweight positions in the consumer staples and communication services sectors, as did our overweighting in industrials.

- Our underweight in consumer staples and overweight in industrials detracted from relative performance. The largest individual detractors were Devon Energy Corporation and Ulta Beauty, Inc.

Contributors to Performance

- Sun Communities Inc. made a positive contribution during the period. The company is a real estate investment trust (REIT) that operates manufactured (pre-fabricated) housing communities. Beyond the obvious benefit from lower interest rates, Sun Communities has a number of drivers working in its favour:
    - strong occupancy
    - solid growth (approximately 7% same-store net operating income growth expected in 2019)
    - no new supply
    - positive demographics
    - a need for affordable housing
    - accumulating private capital that is earning higher yields.

  In addition to organic growth, acquisitions are another source of accretive growth for the company given its favourable cost of capital. Sun Communities completed $375 million in corporate acquisitions during the first nine months of 2019.

- Another performance contributor was NextEra Energy Inc., a utility that generates electricity through wind, solar and natural gas. In addition to benefitting from lower interest rates, the company also has gained from a growing interest in renewables and increasing platform value – it is the world's largest publicly traded renewable-energy company.

  Notwithstanding its size, NextEra has an ability to source opportunities as demonstrated by its current pipeline of 11,700 megawatts, the largest in the history of the company.

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Detractors from Performance

- Investing in energy producers is a challenge these days. The sector is in full liquidation mode, given a view that fossil fuels will cede share to alternative forms of energy at an escalating pace. At the same time, supply from shale-extraction projects continues to rise while demand is coming into question as global growth begins to slow. Finally, in a world increasingly focused on environmental, social and governance (ESG) investing, energy stocks are viewed as almost toxic in many portfolios. While we have maintained an underweight allocation to the sector, we have invested in Devon Energy Corp., as the company appears to be one of the "pledgers" (pledgers are those that are willing to return capital to shareholders, rather than continuing to destroy value by deploying excess cash into additional project development). However, differentiation among energy stocks has proven to be futile.

- The retail industry has been a challenging space in recent years. Ulta Beauty Inc. has, by and large, bucked the trend as the "selfie" generation seeks to ensure they always look their best for photo opportunities. This has allowed this purveyor of cosmetics, fragrances, skin-care and hair-care products to thrive. However, Ulta Beauty put out a surprisingly pessimistic guidance report late in the summer that told a highly valued, scarcity story. It is clear that digitally native brands sold directly to consumers are becoming rapidly and increasingly pervasive. On top of this, it appears the company is encountering headwinds in the U.S. cosmetics market as the industry lacks newness after years of innovation.

Portfolio Activity

- During the quarter, we reduced the level of our underweightings in financials, in particular European banks. While demand for loans remains subdued in Europe, the European Central Bank's decision to resume economic-stimulus measures and introduce tiering of deposit interest rates offers some support to this out-of-favour industry.

Outlook

- Most macroeconomic data suggest a continuing slowdown of the global economy, as corporate investment decisions and consumer purchases are delayed given global-trade uncertainty.

- In Europe, investments are affected by other country-specific issues. Brexit has been pushed out with no certainty on timing or outcome. Italy continues to challenge the rigidity of European Union fiscal limits. And Japan is rapidly approaching an October 2019 deadline for its consumption tax to increase.

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Sources: Bloomberg Finance L.P. and Picton Mahoney Asset Management, as at September 30, 2019.

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Published November 1, 2019.