MOUNT MURRAY INVESTMENT

Montréal, May 6th, 2019

Dear investors,

We have completed our first quarter with positive results in line with our targeted risk profile, which is lower than that of the overall market. While our performance exceeded our expectations in both of our active investment strategies, we achieved the risk objectives we were aiming for and we think this speaks more importantly to our disciplined investment process going forward. You can see our monthly strategy fact sheets here.

Our emerging market equity strategy overperformed its benchmark, net of all fees - at 19.28% vs 9.70 % for the EEM/MSCI Emerging Markets ETF - and so did our global ethical equity strategy - at 16.83% vs 12.62% for the URTH/MSCI World ETF.

Opportunity presented itself on Christmas eve

The ongoing correction in the autumn of 2018 which saw the MSCI EM hit a low on October 29th leading up to the last slump of the S&P 500 on December 24th created several opportunities, which we were able to take advantage of. It seemed that investors had been adjusting their risk premia quite erratically. We entered positions in quality companies whose stocks became very attractive around this time and have been building on the positions since then.

For example, in the midst of the correction, Taiwan Semiconductor had been trading at a low 15.2 LTM PE versus its 2 year average PE of 16.8X. Compounding the market's dark clouds were legitimate concerns that its largest client, Apple, was seeing a slowdown in iPhone sales and that there was an industry-wide pause in cloud capacity investment. The slowdown in sales did materialize and Q1 2019 profit hit a 7-year bottom, but the company has net cash and a solid platform to invest massively in new capabilities. Its market-projected 2019 EPS growth was almost flat at the time whereas it had recorded double digit growth in prior years. After plummeting until early January, its price recovered and TSM is now trading at a P/E close to 19.5X

Also, China's largest internet services platform Tencent had suffered with the government's opposition to its gaming line of business due to the potential negative consequences on the well-being of Chinese youth, while presenting a 5 year historical return on invested capital close to 21.5% with multiple other business segments growing: it appreciated by 14.7% in our portfolio and contributed 1.1% to our Q1 returns.

Similarly, Alibaba, the world's largest online and mobile commerce company, contributed 1.8% thanks to a quarterly return of 33.1% in our portfolio, after mounting concerns about slowing Chinese consumption and large capital investments for the convergence of retail into "new retail" were eventually disregarded by investors.

In fact, of the 32 positions we held in the EM long equity strategy, 9 earned more than 20% in the first quarter. Needless to say, the price action surpassed our predictions, but the correction in the fall had also been the hardest since 2009 and the U.S. market had known its worst month of December since 1931.

Meanwhile, we focus on long term positions that we believe can stand the test of the current business cycle. As long-term investors, we know that markets move in cycles and we strive to be incentivized on a multi-year time horizon. Our views remain on quality and valuation and how we can grow sustainably with the regional economies where we allocate.

For example, the long-term structural growth of Asia creates opportunities for patient positioning to capture a larger share of the wallet from Asia's rising middle class. Consumer spending could soften a bit over the short term, but over the long term, consumers have behaved with remarkable consistency. In fact, consumption is one of the smoothest economic series, i.e. people resist strongly to change in their consumption habits and lifestyle. As incomes rise, spending also usually follows. This trend still appears firmly on track across developing Asia and should continue to make it a key driver of global growth over the coming decade.

Anta Sports Products, the Chinese sporting goods manufacturer ranking third globally after Nike and Adidas, is completing a major acquisition of Finnish conglomerate Amer Sports. Where its Chinese competitor Li-Ning had preceded it in a botched international expansion, Anta had succeeded in the first step of integrating Italian brand Fila in its mainland operations and wanted to develop a global footprint through its single-focus, multiple brand strategy. It was deemed that, although likely successful in the end, the purchase of Amer Sports' portfolio of brands (Wilson, Peak Performance, Suunto, Atomic, Salomon, Armada, Arc'teryx, Precor, ...) would be costly and a significant medium term drag on results. In our view, Anta's strategy had the merit of onboarding niche specialized distinctive brands that exhibit consumer stickiness while showing great potential for inland penetration in an era of rapid sports infrastructure development. We see potential in the evolution of Chinese tastes for new sports and sophisticated apparel, such as what the upcoming 2022 Winter Olympics in Beijing could trigger. We bought the stock on a recovery plateau before the acquisition was finalized in December and the price was since hoisted by solid year end results including sustained growth in Anta's existing retail lines. At five times the sales and earnings growth of Nike and less than half of its price-to-earnings-growth ratio, it seemed a reasonable position to take. It has produced a spectacular 43.1% in the quarter, contributing 1.4% to our performance.

Another purchase was StoneCo, the Brazilian cloud-based commercial payments platform with a relatively small market capitalization of $7.4 B. It earns payment processing fees and related revenues by helping merchants to conduct ecommerce across multiple channels and is popular among small businesses in Brazil, with an impressive client growth in its just 4 years of existence. We thought it was an interesting vehicle for a small participation in local economic growth in a potential market of 5,500 cities, as it had just recorded 127.5% client growth and 91.6% revenue growth up to June 2018 while extracting a positive net margin. Not every fintech company can grow rapidly and still remain profitable while achieving customer satisfaction. Also, it would be well positioned to offer services in neighbouring countries in the longer term. The company had attracted the interest of Alibaba's Ant Financial, and foreign investors such as Berkshire Hathaway. The stock had recently IPO'd in October and followed the overall market downward and we determined it to be a gradual entry. But its price increased right away in January and gained momentum up to the March fourth-quarter update, which surpassed estimates with significant payment volume increase, client gains and also earnings improvement. StoneCo topped our price target after a run of 122% this quarter, nicely contributing 2.3% to our returns, so we finally cut our holdings and the stock has since been receding from intensified competition (namely, from another company in our portfolio, giant Brazilian bank Itau Unibanco, which has reacted forcefully to the industry's aggressive new pricing environment). StoneCo is now our smallest position at 0.8% of assets and will add to it in the future, as we remain interested in its long term plan in the region.

Macro outlook: the herd is calmer - and potential risks

Global equity markets and emerging markets in particular benefited in Q1 from a suddenly dovish stance from the Federal Reserve, which made a jolting turn from its previous direction. In reaction to a weakening stock market and a softer economic environment, the central banks of the world followed suit and intervened once again, lifting all asset prices as a result. This surprised us, as the necessity to address the risks of asset price inflation has again been brushed over to an undetermined future window. The consequences could begin to be felt very close to home, for instance in our Canadian real estate market. U.S. Treasury yields have now fallen half a percentage point since autumn 2018, inflation is low and emotions from the bull market's near-death experience are still running high, keeping inflows to stocks subdued compared to last year.

Markets were also buoyed by an abatement of trade war fears, although we think to a lesser extent. While a final "deal" has not yet been reached on the trade dispute between the world's two largest economies, its significance to the current trajectory of global growth has been fully acknowledged and investor concerns are being addressed on both sides.

We have long held the view that access to affordable debt and cheaper goods and services have been used in the U.S for decades to compensate for a gross lack of revenue growth in the middle class, creating a dependence that isn't easily shakeable. In fact, when upcoming tariffs increases were first announced in the two countries, U.S. companies pre-ordered much more than the Chinese did, because they had little choice to remain competitive and try to keep sales at pre-announced volumes. The initial cost of Trump's duties to the U.S. is also being borne largely by American consumers and this situation can't last too long for the incumbent President. Sales projections have been revised downward to a certain extent since then, but the reliance on competitive supply chains which required decades to build has remained. While Mexico has seen a large increase in its exports of commodities to the U.S. to the expense of China, and India and Vietnam for example would stand to win from an eventual relocation of American companies' production facilities, these countries have major structural and infrastructure limits that make such changes in the value creation chain unthinkable as of now.

We think that the Chinese stock market on average traded under its intrinsic value in January and February, and is still attractive despite a strong start to the year. The People Bank of China reacted to an economic slowdown in the first quarter which was the weakest since 2016 by cutting the reserve ratio required from banks and thus increasing the money supply: the balance of broad money and the balance of narrow money saw year-on-year rises of 8.6% (up 0.6% in the month) and 4.6% (up 2.6% in the month). Then in April, having achieved its desired effect and to prevent potential inflation, the central bank tightened the money supply again. The reactive outflow of foreign capital has been larger than the inflow, with institutional capital a net negative. However, valuation as measured by average market P/E of all A shares is still below its historical average and suggests it is nowhere near bubble territory. If this metric is considered, then a massive capital flee by institutions should not happen.

There is always a fair amount of fear-mongering among investors after a multi-year expansion. It is important to determine exactly what is feared. Some now believe, and we would agree with this view, that the next global recession will come not from major economies like the U.S. or China, which despite a noticeable slowdown in the past year have shown resilient and reliable activity levels, but from some developed economies that haven't de-levered after 2008, plagued with rebalancing challenges. Certain governments and central banks have in fact not taken the necessary means to sufficiently shield their economies from inevitable difficulties, which could cause the next financial crisis domino effect that will trigger another wave of lower actualizations. While major engines of global growth - the U.S., China and Europe - have slowed a little recently, we are not expecting business activity to run away. As we all know now, debt and asset imbalances can keep growing a long time before gravity exerts itself, but we also see several innovative developments in industries and regions that present a strong case for long term positioning. Nimbleness is warranted in a late cycle expansion, however we are supported by historically low long term valuations and major social and economic breakthroughs in our target allocations.

About our global ethical equity strategy

As we remain looking to the horizon's edge we want to focus on relevant investment strategies for our clients. While our EM long strategy is traditional in its form and the main focus at our firm because of its strategic importance, we would like to introduce our global ethical strategy as an exciting add-on to our line of business. We believe there are tangible gains available by seriously developing our ESG (environmental/social/governance) best-in-class approach in our security analysis framework, both for our clients and for our firm. Simply put, ethical investing is good business. Benchmarked to the MSCI World Index, our new strategy has performed well in its first quarter and, importantly, it keeps adding to our ideas mill.

Money still trumps ethics for a majority of investors, who are typically not willing to potentially compromise their returns by investing in a socially responsible provider. But when it comes to how ethically conscious future generations may be, rising numbers of parents are spending time investigating alternative investment options for their children. We believe in the relevance of aiming to achieve the dual objectives of 1) participating in the growth of best-in-class companies providing the highest positive social and environmental impact and 2) seeking long term capital appreciation in companies which we believe offer a significant margin of safety from a valuation perspective and compelling business prospects.

Working on ESG assessment, it became obvious to us that sustainability score providers, although presenting useful insights and frameworks, would not always align with our prerogatives. There is much superficiality and there are many gray areas in this field. Furthermore, almost all of the data available on sustainability is self-reported by companies, without verification. As a result, we rapidly identified the need to chart our own principles for selecting companies whose ethically sound practices and offerings drive sustainable and long-term sales, profits and competitive positioning consistent with a low-carbon, prosperous, equitable, healthy and safe society. We have constructed our own set of criteria for selecting leaders that have the highest impact in their specific industries and we perform extensive research for corroborating/contradictory evidence. You can see the Mount Murray Investment Ethical Charter here for our guiding principles, which are aligned with the United Nations' Sustainable Development Goals.

Ou analysis then follows our firm's fundamental research process to develop a portfolio that will add long term value, with an objective of 200 bps over a full market cycle, in addition to providing the lasting environmental and social impact we look for. It is easy to see that the selected companies stand to remain industry leaders through time by avoiding legal pitfalls, customer backlash, or irrelevance, and we can contribute to their efforts by providing marginally easier access to capital.

Best regards,

Mount Murray Investment