MOUNT MURRAY INVESTMENT

Montréal, June 2nd, 2020

Dear investors,

We understand that these can be difficult times and we again express our wishes of continued good health to our readers.

Our emerging market equity strategy finished the first quarter of 2020 with a return of -26.50% net of all fees, which underperformed the EEM (iShares MSCI Emerging Markets ETF) by 2.81%. The year-to-date 2020 performance is -17.66%, lower than the overall market by approximately 1.60% as of May 31st.

Our ethical equity strategy ended the first quarter down by 15.40% net of all fees, which was 5.64% higher than the URTH (iShares MSCI World ETF). The YTD performance is -0.24%, higher than the overall market by approximately 7.86% as of May 31st.

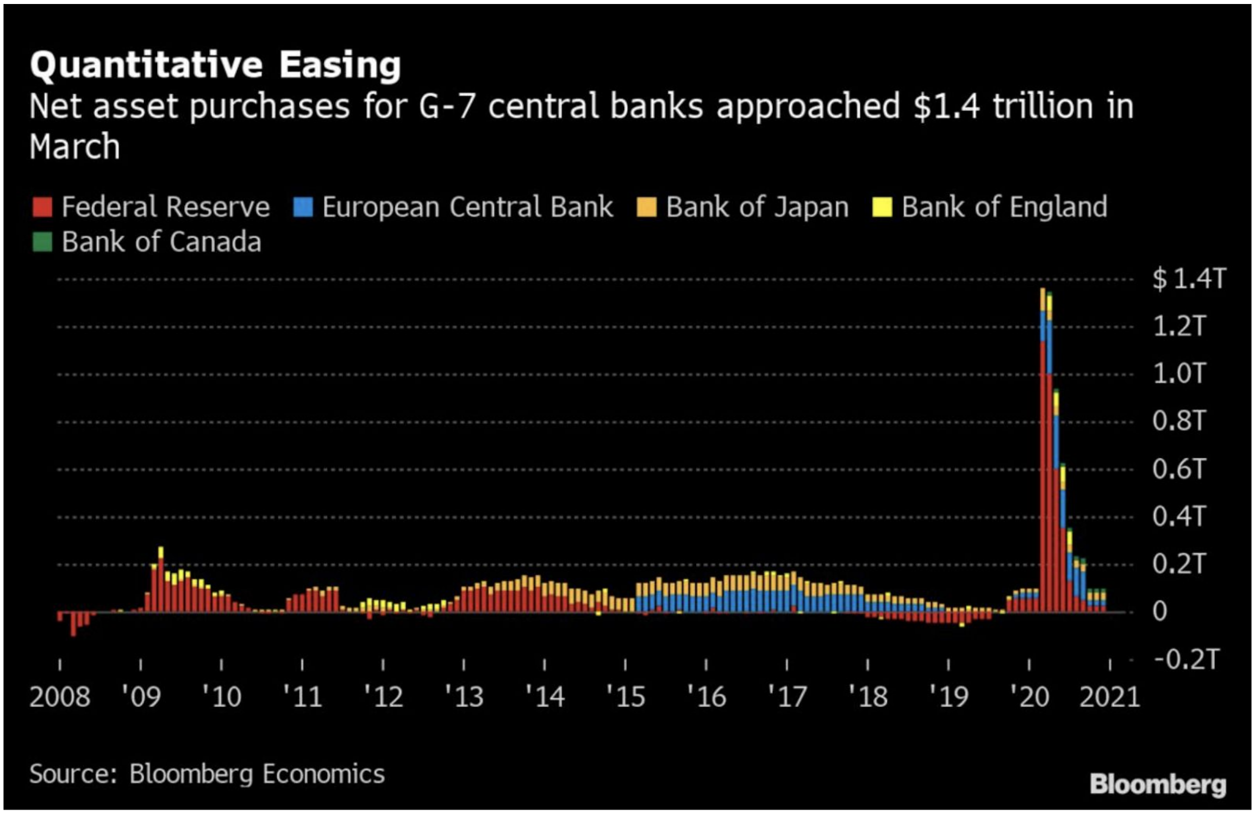
Our alternative emerging markets strategy ended the first quarter at -32.59% net of all fees, which was 25.87% under its benchmark "risk-free" Canada 5 year bond yield raised by a 3% premium. As mentioned in our previous letter, the results are unfortunately in line with our beginning of year stance regarding a positive world economy and thus at this point the portfolio was less hedged during the correction than in 2019, but this alleviated the negative performance since the market trough to approximately -21.58% as of May 31st.

Although it may not feel like it, the recovery is underway

We are not expecting depression-like conditions that would be caused by a very weak return of commercial and consumer activity resulting in massive permanent job losses. Our scenario remains a constructive one, supported by colossal crisis stimuli by central banks and governments alike and a willingness to become even more proactive with further major fiscal injections. More than 7 trillion USD globally have been committed to relief efforts and more trillions will be injected into the economy in the coming months to support its recovery. The world seems to have reached the limit of its tolerance for economic disruption and governments are starting the process of ending lockdowns even if lives are still at risk.

While most economic fears focus on unemployed consumers and on disappointing short termism by politicians, we do believe the lifting of government confinement orders, although difficult and possibly iterative, will do a lot to return confidence. Underlying is a well functioning economy, whose general asset prices we think were undermined too hastily in the fog of panic. And, there are countries that have managed a safe reopening.

While interest rates were already low in many countries compared to inflation, they were lowered again significantly to ensure liquidity in the economy, in many cases resulting in negative real rates. Quantitative easing was also increased to allow for maximum impact.

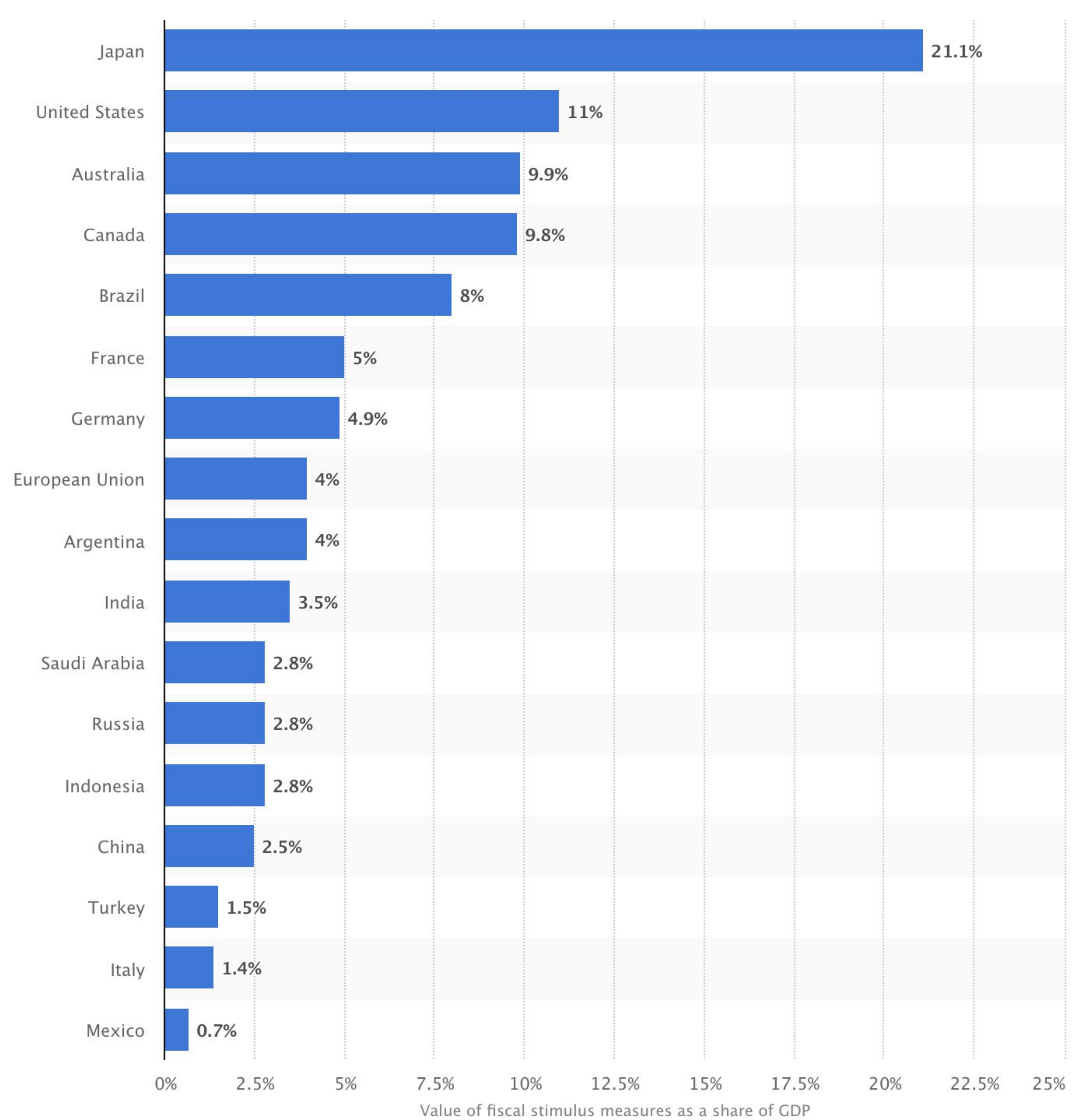


Global policymakers' responses seem appropriate to the challenge. Both monetary policy and fiscal stimuli should remain and even rise further ahead. The fiscal side, which can require longer negotiations, will need to be enacted effectively to protect against cyclical lows. For emerging markets, the fiscal response could reach and even surpass 2.5% of GDP, driven primarily by China[1].

[1] Pierre-Yves Bareau, J.P. Morgan Asset Management, Q2 2020

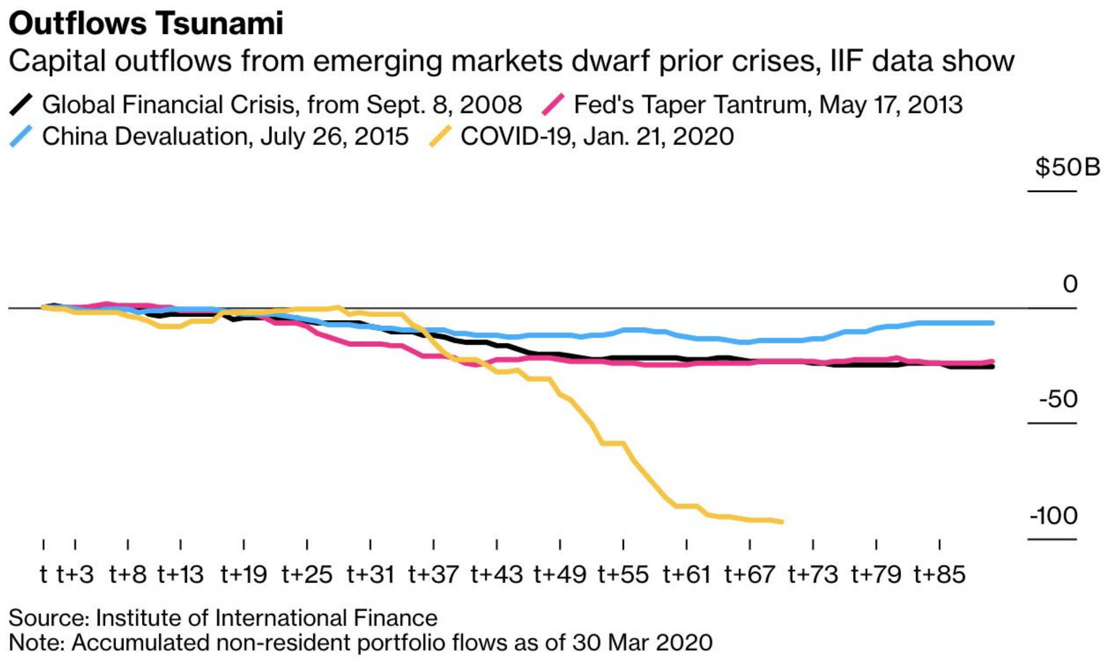
As of May 2020, most G20 member countries had committed to fiscal stimulus packages in order to attempt to soften the effects of the coronavirus pandemic.

Value of Covid-19 stimulus packages in the G20 as share of GDP 2020:

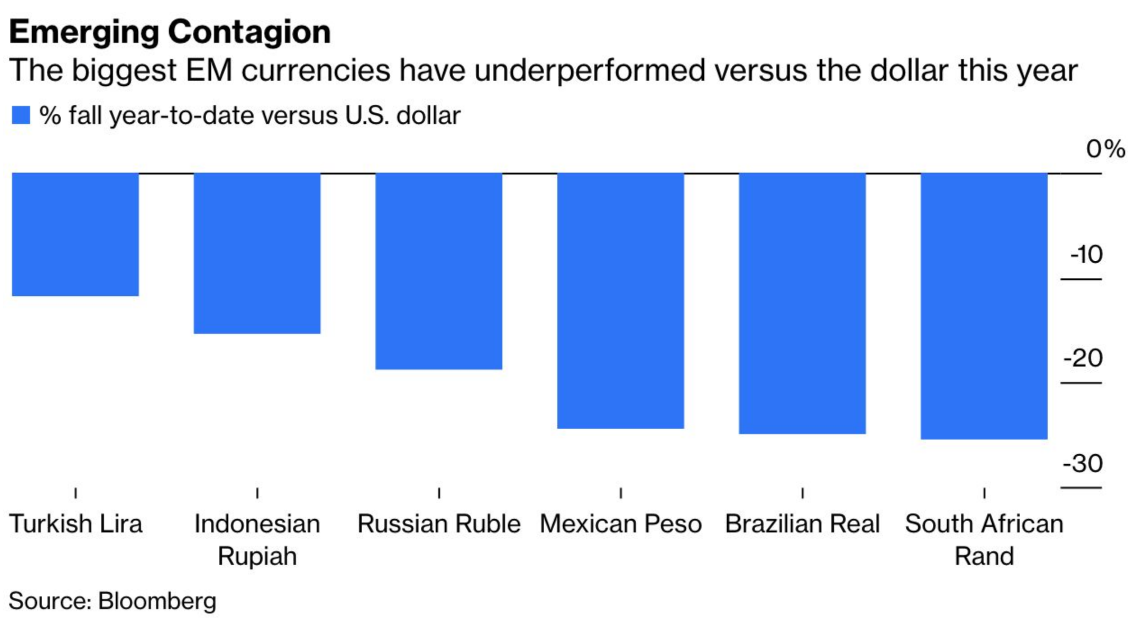


Source: Satista, published by Erin Duffin, May 2020

With this in mind, it can seem plausible to eventually see a return of capital flows to emerging markets, which were highly negative in the period, raising the spectre of sovereign defaults.



These outflows have resulted in large underperformance of emerging market currencies - which, also in a reverse scenario, could stand to contribute significantly to returns.



Interest-rate cuts can help households and companies, but in an increasing number of countries they're making rates under-compensate for inflation. Monetary easing thus risks worsening such exchange-rate depreciation by diminishing the "carry" returns that attracted foreign funds into developing markets debt. Currency depreciation is also painful to businesses that raised debt offshore: around 13% of all emerging-market corporate debt is dollar-denominated, Institute of International Finance data shows[2]. The vicious circle of increasing U.S. dollar value combined with decelerating economies exacerbates debt challenges. Mexico and South Africa have already seen debt-rating downgrades, while frontier markets that have relied on overseas funding will face sharply higher financing costs as long as the current storm rages on. The large exception to this dynamic of outflows has been China, which continues to benefit from diversification inflows as it opens up the world's second-largest bond market to overseas investors. China's aggressive efforts to contain the coronavirus also helped its stock market outperform global counterparts, as mentioned in our previous letter. Also, to the extent that easing stimulates economic growth, equity prospects could remain appealing in emerging markets.

The economic havoc induced by the Covid-19 pandemic did not keep equity markets from bouncing off their lows in what looks like a classic V-shape, similar to that of previous shocks, albeit caused by completely different events. In our era, economic deflation triggers policy reflation and expectations of renewed economic growth. This time around, the policy stimulus has been prompter, larger and more flexible. Again, the shock here is one of supply and demand, not of overextended demand in some problematic segments of the economy or of structural capacity problems. A simple chart of post-war, year-on-year growth in nominal or real GDP shows that all periods of economic contractions have been followed by equally sharp rebounds - once the recovery begins, that is[3]. The current contraction materialized at approximately 4X the speed of the average recession since the Second World War. There is a strong possibility of a rapid recovery when the factors that caused it are reversed: lockdowns need to be lifted and people need to feel safe; the war on the virus needs to be won, which seems inevitable at some point. Time is of the essence, but there are other factors at play than a vaccine that can contribute to an appropriate climate for recovery, such as a mindful following of best practices to avoid devastating duplicate waves. This remains our base case scenario.

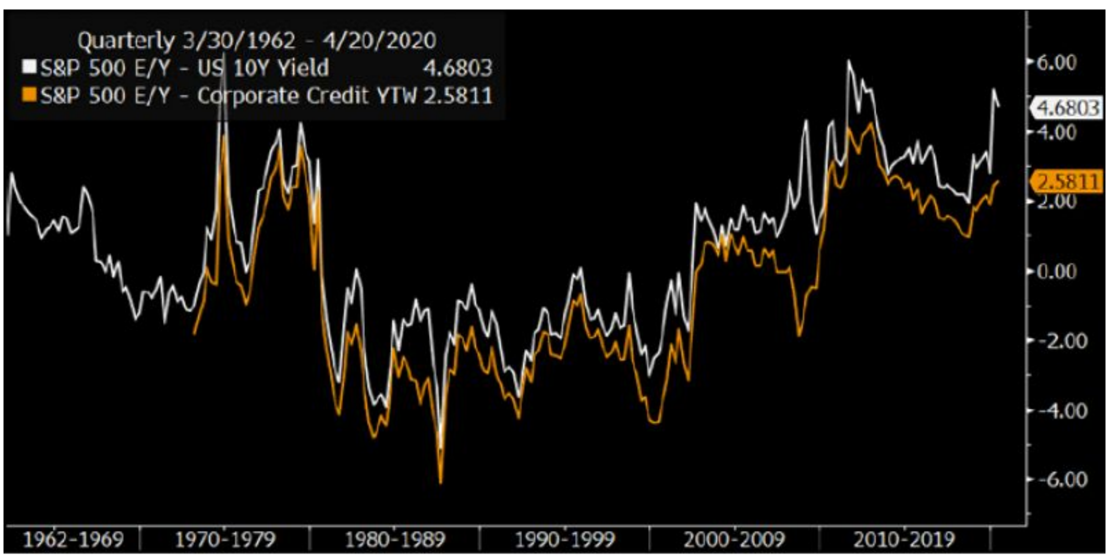
[2] Bloomberg, May 2020

Valuations don't appear expensive

March was a period of "fire sales" - hence the freezing of the U.S. treasuries market and the extraordinary measures taken. We do not expect such a "broken" investment environment to return in this crisis. If we estimate a trough in profits and assume a speed of recovery less than 2.5 years, we consider that the markets are affordable. The fall in earnings chopped approximately 4.5X off the trailing market P/E in less than 2 months, as it went from 23.5 to 19, or in other words 4.5 years of earnings at pre-existing average multiples. While the market gained back 2 years to a now P/E of 21, it's assuming a shortfall of 2.5 years with zero profits or a corresponding curb in longevity. While it can be argued that the U.S. market was too highly valued before - with a historical median of 14.8 since the 1870s - the liquidity stimuli put in place are unprecedented. The same discount applies to European and emerging markets, at a lower starting point from their long term median.

Looking at the largest equity market as an indication, U.S. stocks are more discounted compared to 10-year Treasuries than during the Great Recession. In fact, low bond yields have increased the equity-risk premium close to former highs, reflecting the extreme risk-off sentiment prevalent and showing a deep discount according to this measurement.

S&P 500 earnings yield minus bond yields:

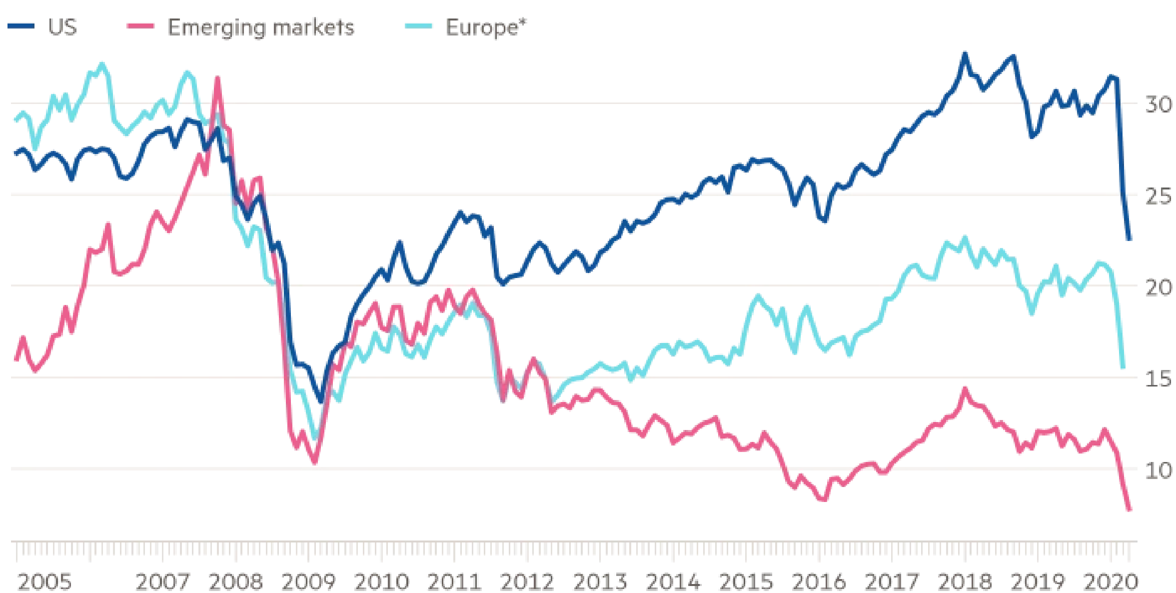


Source: Bloomberg, April 2020

Of course, reported earnings are currently falling but the bottom and following bounce may have been reached, and comparing them to other periods implies similar dynamics. Equity earning yields at current stock prices are extremely higher than bond yields. This is true for more than 80% of the names comprising the S&P 500. This is the effect of central bank stimulus at its maximum and the main reason U.S. stocks ended in April their best month in three decades despite the worst jobless rates since the Great Depression.

As for our favored emerging countries, stocks have rarely been cheaper. Analyzing emerging markets equity levels from a return potential by adjusting price-to-earnings ratios for the average of the past 10 years of earnings (cyclically-adjusted P/E) the investment case for an allocation to growth prospects in emerging markets is even stronger now. Mean reversion is never in a straight line and its trajectory is unpredictable, but we seem to be on the right side of history.

Cyclically-adjusted price-to-earnings ratios:



Source: Institute of International Finance, Bloomberg, Financial Times, April 2020

Brazil – in the limelight again!

Brazil finds itself in the limelight again. President Bolsonaro has been caught on video demanding the right to interfere in the judicial investigations of his sons. This comes after the Supreme Court had already opened an investigation of their own into the former army Captain based on evidence from Justice Minister Sergio Motta when he resigned. There are strong rumours that even members of his own government are seriously considering impeachment, being held back only by the risk of further chaos as they try to fight Covid-19.

Brazil business confidence sits at second lowest reading on record:

To make matters worse, the death toll from Covid-19 has picked up dramatically in large part because of Bolsonaro's laissez-faire attitude; the same attitude that has caused two health ministers to resign in as many months. At this point, Brazil will probably become the second worst performing country by mid-June at the latest. Stark footage of the rows of graves being filled in Brazil's iconic red soil only serve to highlight the scale of the tragedy.

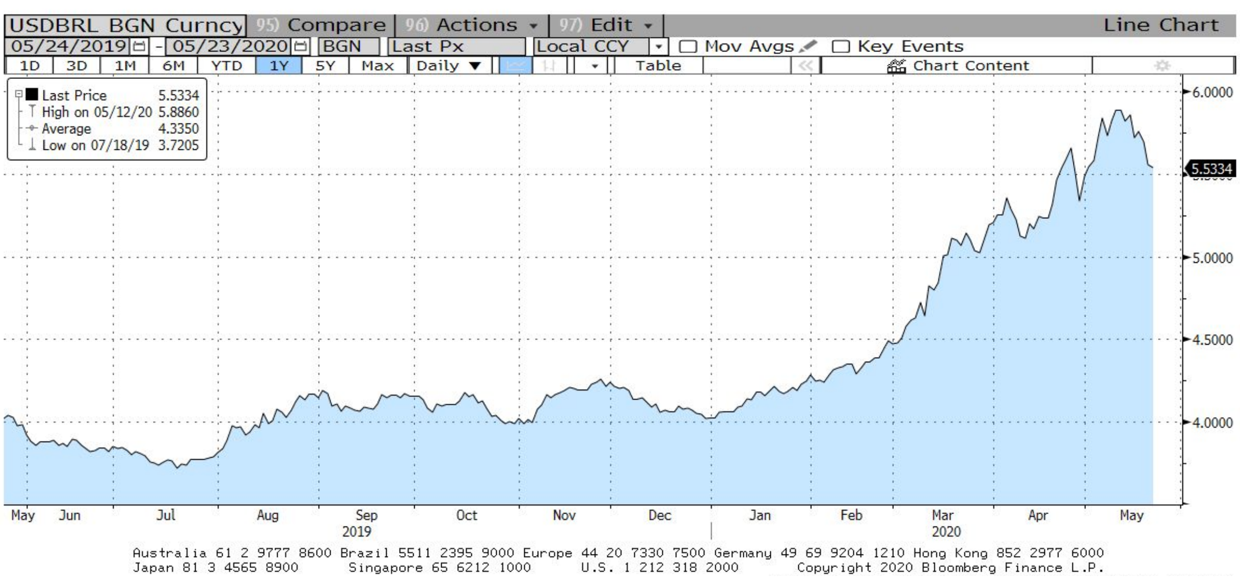
The arrival of Covid caught the markets by surprise – they went from complacency to near-death in a matter of days, requiring the U.S. Treasury to adopt their own "whatever-it-takes" moment as even the U.S. treasury bonds market started to seize up. Countries like Brazil and South Africa always suffer badly when these kinds of market dislocations occur. 2020 was no exception and Brazil has seen massive outflows from foreigners and domestic investors alike, ahead of countries like China and India. No doubt Bolsonaro's antics have contributed to turning Brazil's tragedy into a disaster.

If we look at the country's credit default swap spreads, they have ballooned to levels associated with constitutional crises – such as the impeachment of former President Dilma Rousseff.

Brazil 5-year credit default swap spreads:

Brazil's traditional weakness, its currency, recently hit a record low against the USD.

USD/BRL:



So, is this the end for Brazil? Far from it. Although Brazil has been a serial disappointment, always finding new economic misfortunes to bring upon itself, it also enjoys periods of growth and excellent investment opportunities. We firmly believe we are at the start of one of those periods.

Since the end of the last recession, inflation has fallen to record lows, and interest rates have followed suit. Unlike in previous crises, the weakness in the currency is not expected to produce significant inflation pass-through. Looking at consensus estimates as reported by Bloomberg, consumer price inflation of 3% this year will be followed by 3.3 - 3.5% over the next 2 years. Absent any inflation pass-through, the Brazilian Real is probably significantly undervalued. Back in January, with the currency around 4.15 to USD, it appeared 15% undervalued according to the Big Mac Index, for instance. Since then, it has fallen by around 1/3.

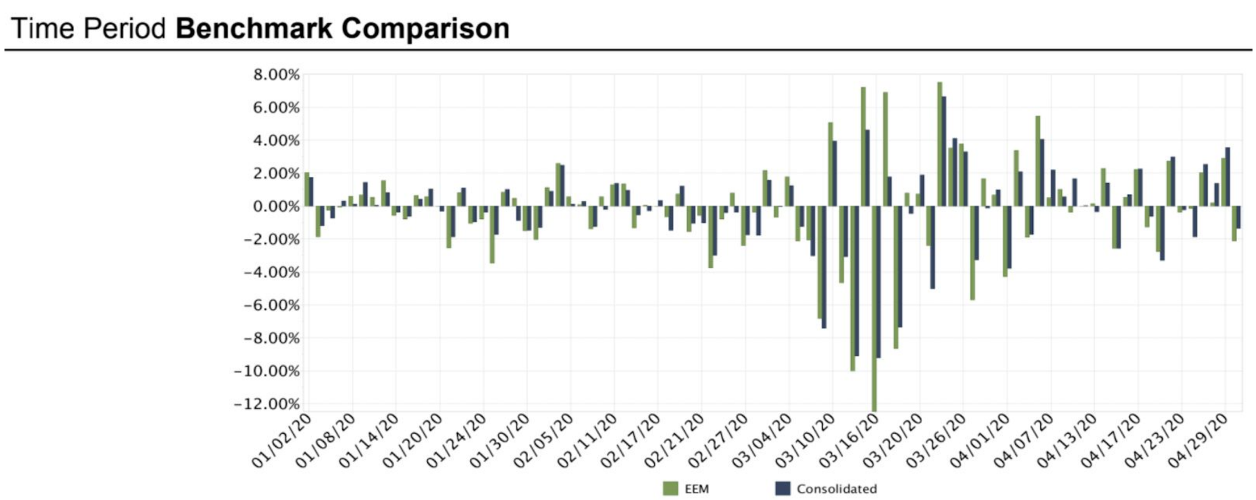
Brazil didn't enter into this crisis with an overly hot economy, nor high external imbalances that required large currency adjustments. The government had just passed vital pension reforms that will help stabilise government finances going forward, whilst fiscal deficits associated with Covid-19 are not out of line with other countries. The government has also been moving forward with cleaning up the balance sheet of Petrobras, rather than using it as its own personal slush fund.

Ironically, Bolsonaro's impeachment would probably be a good thing. Most of Brazil's presidents since the end of military rule in 1988 have left office under a cloud, to say the least. Two, Fernando Collor de Mello and Dilma Rousseff, have been impeached. Historically, the best time to buy into the Brazilian market has been when the currency was oversold and pessimism was high, and we think that time is now.

How we managed the emerging markets equity strategy in Q1

In early April, in general, we rebalanced slightly the emerging markets equity portfolio by reducing the allocation to defensive companies which had materially outperformed toward cyclicals which had materially underperformed, and from China to other regions. Our banks are very well capitalized with level 1 capital well above the 12% Bank for International Settlements limits and were already oversupplied for non-performing loans. Our companies also generally had lower debt levels than the benchmark and low Altman Z scores, with growth prospects that aren't about to change: Petrobras is semi-state-owned and is already working on the reconstruction of its balance sheet as mentioned, Reliance signs joint ventures with Aramco and Facebook to improve its balance sheet, Brasil Foods should see its exports improve due to the weakening of the currency and now the possible hardship of its foreign competitors. We also took the opportunity to buy a few names we were considering with reliable balance sheets at significantly cheaper prices, always with a GARP perspective. We have included the largest telecommunications service provider in Latin America, América Móvil, which sees its main competitors withdrawn from the market and will probably sell assets into a REIT, improving the balance sheet. Carlos Slim, its main shareholder, made a public commitment not to fire employees of Carso companies during the pandemic, which was good news for ~300,000 families. We also see home office as a solid emerging trend to increase demand for broadband services and translate value from real estate into the telecom industry as corporations funnel savings in office rent and ensure employees have access to fast and secure connectivity at home. We replaced a Brazilian bank, Itau Unibanco, with two others with more potential. In conclusion, there were no major fundamental changes made to our portfolio as it appeared to have a daily volatility which was in check vs its benchmark.

MMI EM Long daily returns YTD (Consolidated):



An even stronger focus on ethics

There is much anxiety about governments' ability to pay for the massive stimuli announced - and coming. Much is also written about the necessity to treat employees and marginalised populations fairly during this unprecedented health crisis, and to ensure recovery plans are a solution to many existing problems, not least of which is over-exploitation of the environment. The coronavirus crisis is a vivid example of international interdependence and of equality in the face of a major health shock. Despite the current political short termism, it represents an opportunity for coordinated positive action. We hope that the interconnectedness of the global pandemic problem can drive the world toward constructive change. We are optimists at heart, but we do see encouraging results. The speed of change appears to be accelerating.

Locally, stimuli have been targeted at large swaths of people, for the most part inclusively. In India, for example, when government payments can't reach financially precarious citizens despite the new national Unique ID system, bags of food are delivered to doorsteps. In most countries, from the start, loans were extended to small private businesses. It also seems abundantly clear that companies disappointing on the "social" front of the ESG equation and which have, for example, inadequate policies on sick leave, childcare support and workplace safety, are going to feel the sting of public criticism like never before.

Most of the money spent so far has gone toward increasing liquidity in global markets, such as direct payment to citizens and loans for businesses, but generally without green objectives. As governments move beyond providing relief to an economy on pause and begin to set a course for recovery, climate objectives can be considered. The EU seems to be moving in this direction with a yet to be passed €500 billion recovery fund akin to a "green deal". A survey of more than 200 central bankers, G-20 finance ministers, and academics from 53 countries conducted by a group of economists with Joseph Stiglitz was released in the Oxford Review of Economic Policy: it concludes that governments would get more return on their investment by recognizing that many of the most effective solutions to stimulate economies also reduce carbon emissions.

Sustainable funds globally attracted about $45.7 billion in net flows during the first quarter of 2020, even as the overall fund universe suffered $384.7 billion in outflows, according to Morningstar. We would be surprised to see fund managers who actively prepared their clients' investments from a global pandemic. But a study from BlackRock found that in the first-quarter's market drop, 94% of sustainable indices nonetheless outperformed. Notwithstanding the impact on the energy sector of the oil price war and sudden stop in transportation, or the impact on brick and mortar retail and on tourism of forcefully locked down buildings, many top companies according to ESG criteria actually increased sales and profits during the pandemic. According to another March 25th report from Bank of America, U.S. stocks in the top quintile of ESG rankings outperformed the S&P 500 during the coronavirus rout, even after adjusting for size and exposure to the beaten-up energy sector. Companies with lower scores, meanwhile, saw bigger downward revisions in their earnings prospects for 2020 and 2021. Furthermore, per BlackRock, more than three-quarters of sustainable indices had fared better than traditional ones in market downturns from 2015 through 2018. However, only about 3% of U.S. 401(k) plans offer the option of investing in an ESG fund, and less than 1% of all 401(k) assets are actually invested in ESG-specific funds[3]. The situation is similar in Canada.

As we mentioned when we launched our ethical equity strategy, there is substantial divergence of so-called ESG rankings in what constitutes a good company on environmental and social grounds. On governance, points of view vary even more widely. For example, a good rating from Sustainalytics is not necessarily in the same quarter or even in the same half of rankings by FTSE or by MSCI. It can easily look like a marketing sham and the true cause of the chosen companies' performance can legitimately be questioned. This is why we realized early on the need to develop our own set of ethical principles used to select companies to analyze further, and to remain transparent on these criteria (click here for our firm's ethical investment principles).

How we managed our ethical equity strategy in Q1

ESG criteria tend to favor alternative energy - that knows no supply disruption - technology companies, healthcare and new financials - that work on improving productivity, well-being and accessibility. These companies usually rely significantly on new technology, employ gradually less workers and therefore enjoy large operational leverage[4]. Nonetheless, in our own ESG strategy, the technology and healthcare sector weightings did not contribute to the outperformance in Q1, as they were in line with the MSCI World index. Sectors like consumer discretionary - which we had slightly overweighted and mainly benefited from our selection - and financials - which we hold very little of due to our criteria but corrected considerably in the benchmark - contributed positively to our Q1 returns in relative terms, as can be seen in our April YTD sector contributions.

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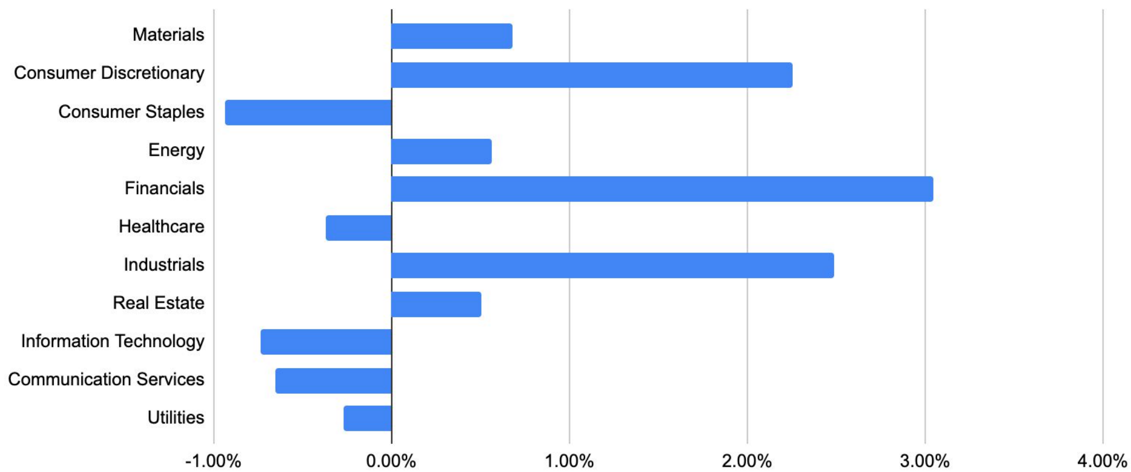
[3] Natixis Investment Managers, Bloomberg, May 2020
[4] John Authers, Bloomberg, May 2020

MMI ESG Long sector contributions - April YTD:



The coronavirus is likely to reshape the fundamental relationship between employers and employees. Addressing worker health and safety has been the biggest test yet of CEO commitments to stakeholder capitalism, but there will undoubtedly be more scrutiny. The pandemic has been especially punishing for gig workers, whose jobs often lack health benefits and long-term stability. But at the same time, gig work has become a popular fallback for millions of people losing their jobs. The current social crisis puts the spotlight on our companies, which we assess according to their level of social responsibility, among other things. Although the analysis must weigh various factors, the treatment of their employees will imply reality checks when the dust settles.

We are, however, satisfied with the measures put in place so far by the majority of them. We hold high-quality companies with solid balance sheets, most of them in fast-growing industries and offering products and services in high demand during the crisis: several stocks appreciated YTD. We rebalanced the portfolio slightly starting on March 19th by reducing certain securities with higher valuations that had resisted strongly while being potentially more vulnerable in a context of prolonged market crisis, according to an allocation reduction in the United States toward other regions: France, Canada, Japan, and China. We invested all of our pre-crisis liquidity at this time.

Certain specific situations which we consider temporary have also encouraged us to increase our positions: Disney - traffic at zero in the parks and probably decreasing in the recovery, broadcasts of sporting events canceled, but the Disney+ streaming service keeps gaining subscribers and the company has ample liquidity (rumors of the company looking for a sizable stake sale would probably work toward propping up the share price); Acuity Brands - a company that specializes in LED lighting and building management, flouted by the Trump administration's reversals of energy saving policies, although we consider the environmental momentum to be unstoppable (given that approximately a quarter of the world's electricity is used to generate light and the economic and environmental impacts of widespread LED use are monumental: LED bulbs typically use up to 80% less energy than traditional incandescent bulbs and can last several years longer). We also introduced a small position in Montréal-based CAE, manufacturer of simulation technologies and training services mostly to airlines, given its responsible management through the crisis (it recalled all employees laid off as a result of the pandemic- 1,500 of them - and started producing ventilators, for instance) and strategic usefulness in the industry; the stock was attractive after losing more than 47%. We are now considering a rotation towards more "value" companies given the longevity of the current "growth" cycle and the predominance of this style in our portfolio. However, in our opinion, our companies in general remain the companies of the future, and each industry must be considered according to its potential for extraordinary compound returns. As another potential risk in the medium term, the strong U.S. dollar could depreciate, affecting our significant weighting per the benchmark in the U.S., even if we reduced it recently. More reweightings are possible in that regard.

How we managed our alternative emerging markets strategy in Q1

MMI Alt EM top contributors - May YTD:

Top 3 Stocks	Contribution	Bottom 3 Stocks	Contribution
Short EWZ (Brazil ETF)	3.40%	ICICI Bank	-3,19%
Short INDA (India ETF)	3.00%	HDFC Bank	-3,13%
Short ERUS (Russia ETF)	2.63%	Itau Unibanco	-2.77%

The high concentration of our securities and our allocations to the countries most affected by the crisis caused the negative performance in our alternative strategy YTD. Our positioning in this strategy is similar in specific long securities to that of the EM Long strategy although more concentrated, and the proportions of allocations to different countries are based more on risk parity with equal risk exposures in highest conviction regions: India, China and Brazil, and a secondary exposure to Russia. So overall, our significant allocations to India, Brazil and Russia weighted down the portfolio as these countries corrected sharply (April YTD): India: -26%, Brazil: -51%, Russia: -31% . We do think this repricing drove already attractive assets to even cheaper levels and the risk in those countries is therefore currently low, according to our analysis. The alternative emerging markets strategy appreciated more strongly than the long only strategy in the expected rebound, overperforming the market by 4.64% in April-May, and this without leverage.

As mentioned in our previous letter, the alternative strategy was country-hedged to a lesser degree since the fall of last year, according to our initial base case scenario for 2020 (absence of recession) and we had allowed the options overlay/floor to expire in January in order to put it back in place opportunistically before the end of Q1... The economy and the markets were strong and a lesser correction had been expected for some time as the trade war entered a new phase of resolution (in order to support the markets until the American presidential election, namely). We expected to use our significant level of cash and fixed income ETF positions to hedge some of our systematic country shorts, which were nonetheless at low levels. The deterioration took place quickly and instead, we sold options in March (due to a maximum VIX) and hedged all of our shorts at the bottom of the market. We work with clear risk objectives and we constantly measure the effectiveness of our execution against them, as we aim to obtain risk measures which are generally capped in the alternative strategies. The risk profile of the strategy may be reasonable cumulatively at the end of the year, but it was unacceptable for February-March. Even if we believe that a major economic crisis can be avoided this time, we obviously do not want to find ourselves in such a situation anymore and we are modifying our hedging guidelines more conservatively and permanently. We are still expecting a good end to the year with the temporary plunge behind us. We want to keep beta in the strategy and believe that this approach can present attractive benefits in the current context.

We have noticed a gradual increase in the velocity of corrections in recent years despite low volatility and we may be entering a new phase in the markets. Central bank interventions through direct purchases can have the effect of squeezing volatility out. Japan has been running that experiment for two decades now: it's relatively common, for instance, for hours to pass without any trade in the 10-year benchmark JGB - a security whose level is essentially determined by official policy, not by price discovery[5]. This phenomenon can affect other asset classes as well. In the U.S., the giant Federal Reserve purchases have sent a measure of implied volatility in Treasuries to a one-year low - even as actual price swings held near record peaks. But risk is far from canceled.

While the Bank of Japan's balance sheet is now larger than its economy, the Federal reserve and European Central Bank have holdings of approximately 30% and 40% of their respective economy's GDP, but they are deliberately set on the same course. A deeper global recession could take place in the longer term given the increase in sovereign risk levels due to massive debt issuance, possibly in both developed and emerging countries. We think the macroeconomic framework will be more important than ever given the increase in sovereign risk.

Best regards,

Mount Murray Investment

[5] Bloomberg, May 2020