Montréal, September 16th, 2020

Dear investors,

Our emerging markets equity strategy finished the second quarter of 2020 with a return of 20.55% net of all fees, which overperformed the EEM (iShares MSCI Emerging Markets ETF) by 2.63%. The year-to-date 2020 performance as of August 31st is -1.10%, lower than the market ETF by approximately 1.18%, net of fees.

Our ethical equity strategy ended the second quarter up by 24.42% net of all fees, which was 4.87% higher than the URTH (iShares MSCI World ETF). The YTD performance as of August 31st is 23.84%, higher than the market ETF by approximately 18.33%, net of fees.

Our alternative emerging markets strategy ended the second quarter at 25.69% net of all fees, which was 24.85% over its benchmark “risk-free” Canada 5 year bond yield raised by a 3% premium. This brought the YTD performance as of August 31st to approximately -5.25%, net of fees.

Liquidity trumps everything

As August passed, summer in North America came to an effective end. With kids back in school and Labour Day behind us, it is a good time to not only think about what has happened so far this tumultuous year, but what may also happen over the next year.

We have held the view that unprecedented massive liquidity would make asset prices bounce strongly off their pandemic lows. In addition, we reasoned early on that there were various feasible ways for society to return to some form of normalcy that would enable businesses and consumers to resume their economic activities, therefore making the situation less of an utter calamity than many had initially feared. Our analysis was in no small part based on the early experiences of Asian countries battling the economic impact of the virus and attempting to slow its spread. To us, an extremely forceful monetary and fiscal response (in what was an already accommodative environment pre-crisis), combined to a “non-worst case scenario” in terms of the longer term impact on the economy, created an explosive cocktail for equity markets, and we positioned our portfolios accordingly.

The instant massive increase to monetary aggregates has indeed brought a suddenly very vulnerable world economy facing catastrophic bankrutpcies back from the depths of despair in a heartbeat. Almost everyone borrows and/or receives support now, whether they really need it or not. The effect on economic activity has been immediate. In this era, although it can be hard to grasp, liquidity trumps everything else.

We think that governments reacted correctly, although not perfectly, since stimulating growth generally beats picking up more broken pieces in the long term. The response has fueled consumption, has provided a floor to companies' budgets, has protected jobs to a large extent by keeping employees on a (lower) payroll and prompting re-hirings. Mainly, it has ensured a very visible and concrete helping hand in a time of panic for most, greatly contributing to a sense of calm.

Many now expect returns on emerging-market stocks, which erased their 2020 losses on August 25th, to surpass developed markets in the first half of next year. China already has the best performing stock market in 2020, with the Shanghai Composite earning 15.74% YTD as of August 31st, compared to the S&P 500 at 9.74%, the Euro Stoxx 50 at -4.83% or the MSCI World at 5.76%. This is no small feat for China. We now expect the large emerging market laggards, namely Brazil, India and Russia, to follow suit in a context of normalizing market conditions with positive dynamics in the real economy.

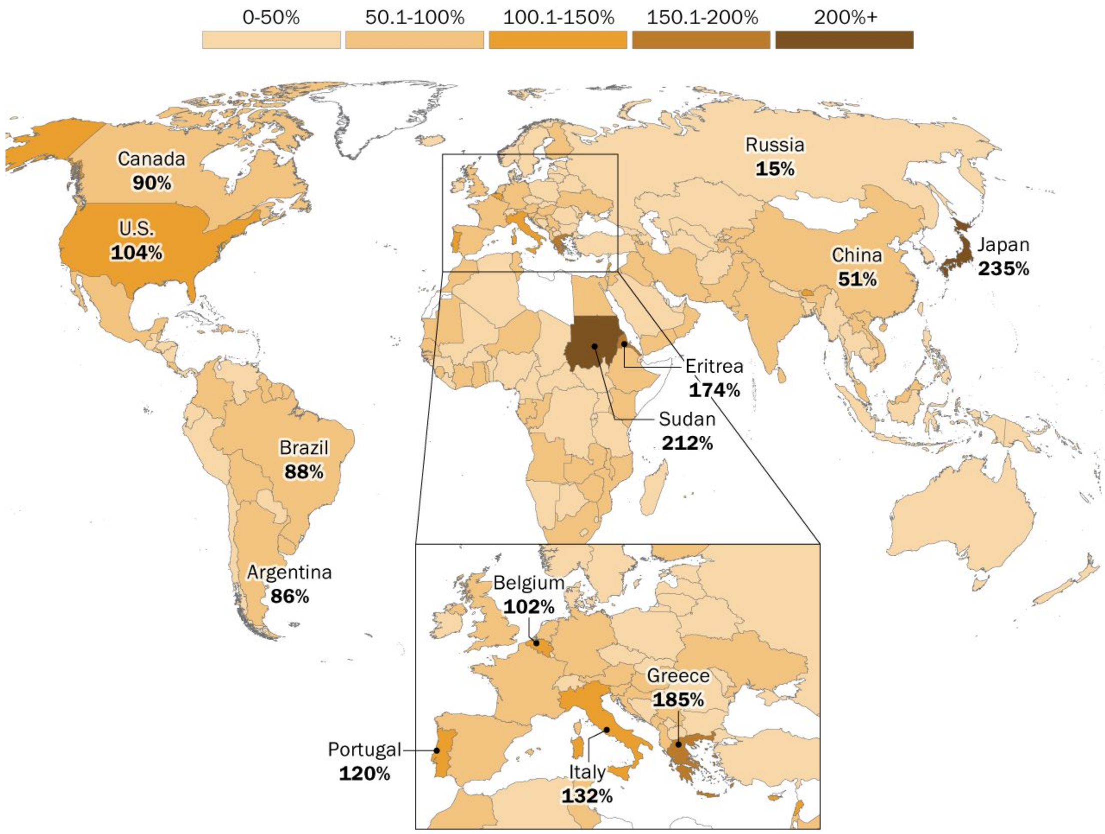
Debt issuance everywhere

Global debt hit a record USD 258T in Q1 according to the Institute for International Finance. It jumped by over 10% relative to global GDP, the largest quarterly surge in history, to reach a record level of 331%[1]. Gross debt issuance in Q2 then hit its highest peak at USD 12.5T - compared with a quarterly average of USD 5.5T in 2019 - with 60% of the issuance coming from governments. Many governments were already highly levered by historical standards before the pandemic hit, a direct consequence of the Great Recession. Although debt-to-GDP ratios alone do not determine risk levels, they indicate the level of aid that has been injected into the system to keep it from deteriorating further.

[1] Macro Strategy Partnership, July 2020

Japan, U.S. and Italy among major world economies where public debt exceeded GDP before coronavirus downturn

Gross government debt as a share of gross domestic product (most recent year available as of April 2020)



Source: International Monetary Fund, October 2019 World Economic Outlook (accessed April 2020).

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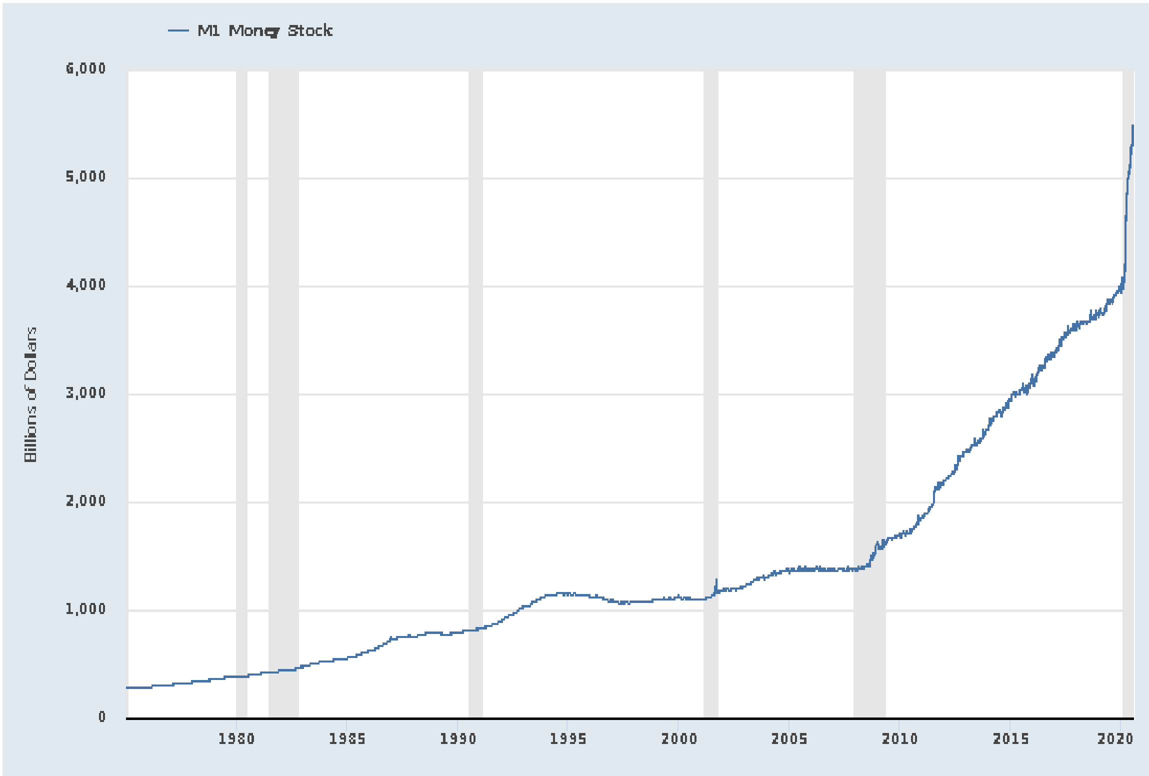
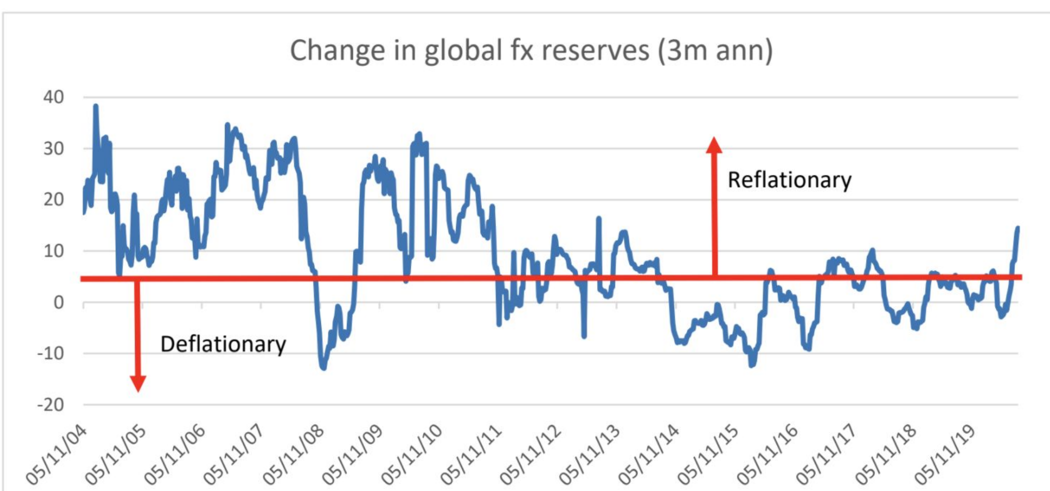
Fiscal deficits are funded by printing money and by taxing assets and income. Since the start of the year, the Fed's balance sheet has risen from 27% of M2 money supply to 37%, the BOJ's from 41% to 45%, and the ECB's balance sheet from 36% - (20% at the end of 2014) – to 45.4% of M3 money supply, highlighting just how unproductive several economies have become. The U.S. Federal Reserve has promised to "do whatever it takes" to reflate the U.S. economy, and they have been true to their word so far with gigantic injections of liquidity.



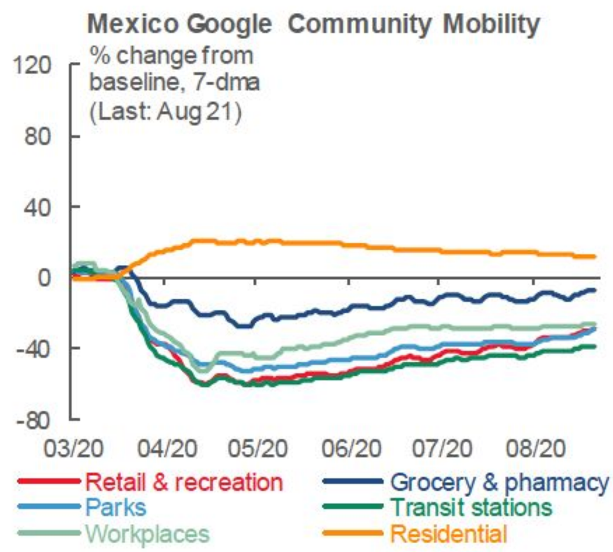
Source: FRED, August 2020

Along with a weakening dollar, there is proof that easing global monetary conditions and renewed trade activity have led to increasing USD flows offshore - traditionally a sign of recovery and maybe even of a possible reflationary environment - in the pace of global foreign exchange reserves growth, which are mostly held in USD by foreign central banks.



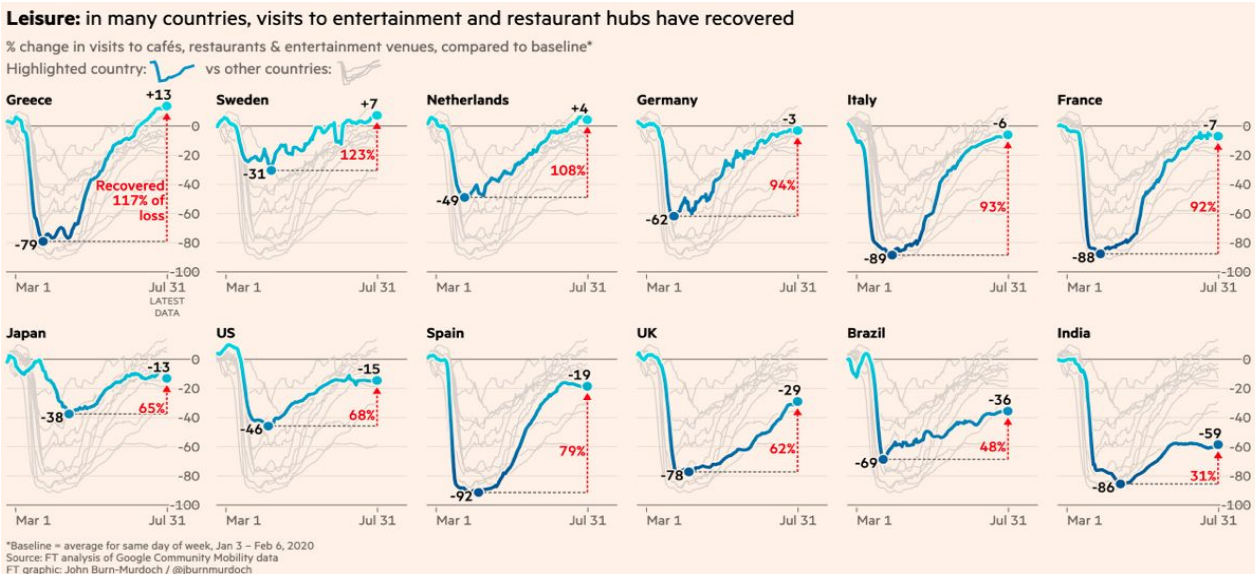
Source: MacroStrategy Partnership, Bloomberg, August 2020

The good news is that wherever you look, the evidence that we are pulling out of the Covid slump is everywhere. Mean reversion is happening across the world. We now have unparalleled access to granular data that tells us what people are doing almost instantly. That annoying app from Google that shows how long it will take to drive home during current traffic also tells the government where people are spending their time. Credit, debit, and loyalty cards tell retailers, movie theatres, and governments how you are spending your money in near-real time. Building on a theme from our previous newsletters, this phenomenon isn't restricted to just the developed markets, as this chart from Scotiabank shows us.



Source: Google, Scotiabank, FICC Strategy, August 2020

As the next chart from the Financial Times illustrates, spending on leisure activities has rebounded strongly across a broad array of markets, from the U.S. to Brazil to India. In the early days of the pandemic, a lot of that was going to the online market, especially as firms like DoorDash, Uber Eats and Meituan-Dianping were able to ramp up. Now, anecdotal evidence suggests on-premises sales are picking up. U.K. newspapers are full of tales of Brits getting into trouble in Spain and Greece as they travel abroad again, so very normal behaviour! The biggest question over the next 6 to 12 months will be whether stock market performance is going to broaden out the way the economy has.



Source: Financial Times, August 2020

Measured risks

Equity markets have clearly been buoyed by all this debt issuance, and they can also now provide many companies with good capital inflows from equity offerings. In such an uncharacteristic environment, it's easy to ask whether you should invest fully or remain on the sidelines. The answer is unequivocally yes, but it can be done with prudence following a measured risks approach. Equity markets are the most liquid ones, next only to currencies, offering opportunities to adjust positions rapidly. Second, they offer unparalleled diversification in countries, sectors and factor exposures. Bloated valuations can be avoided, dynamic allocation can be applied to contain macro risks, strategies can be balanced. Therefore, we believe an allocation should - and must - be invested and maintained in the public market segments offering the most solid growth prospects.

Stocks seem to have adopted a "winner-takes-all" pattern, as companies that benefit through higher sales have rallied strongly, whilst others have decidedly lagged. In fact, the majority of stocks are still down on the year, even as the indices hit new highs. We have adopted a balanced approach to this conundrum. For instance, one of the consistent themes we have been implementing across our portfolios has been the increased use of digital platforms, whether as disruptors like Apple pay and StoneCo in mobile payments, two stocks that are unquestionably "hot" in our portfolios right now, or via our "established" banks from Chile and Thailand, all of which would be considered as local market leaders and yet are decidedly laggards. Those two groups of stocks show decidedly different fundamental characteristics, while keeping on with a common investment theme. We think a barbell approach to growth and value is a prudent positioning to make the most of the current opportunities.

In August, we started to see the effects of the easing monetary policy wash through into the other emerging markets of smaller Asian countries and Latin America, as this tsunami of liquidity tries to find a home. Continued USD weakness will support this reflation, not only through higher commodity prices but also the continued possibility of lower domestic rates. This encouraged investors to start picking up several of the laggards and not just the momentum plays. Thus, we are comfortable that we are still in the early stages of this market broadening, and that it will probably be the dominant theme into year end.

How we managed the emerging markets equity strategy in Q2

Our largest contributors in Q2 were: Reliance Industries (quarterly return of 50.99%), which benefited from years of aggressive positioning to participate in the high growth of mobile in India, making its tech and telecom business an indispensable partner to Google, Facebook, and others; StoneCo (+70.77%), the Brazilian small business payments platform, which came back from its valuation depths of March and like many digitalization solutions saw a considerable increase in clients during the pandemic; Russian internet leader Yandex (+44.60%), which enjoyed similar activity; Chinese behemoth Tencent (+31.64%), which also pursued its user growth/monetization; and Dr Reddy (+32.63%), the Indian pharmaceutical that overcame initial disruption on the imports logistics side when the lockdown was first imposed in the country.

Laggards were Samsung Electronics (+10.82%), the Korean bellwether accounting for 12% of the country's GDP (which enjoys a competitive fiscal position and a key exports market), still under a cloud from a prosecution for its founder's son's grasp on the company's control - the stock has since bounced some as it recently won large orders from Qualcomm for low end 5G chips and from Verizon to provide wireless communication network equipment in the U.S. for the next five years; China Petroleum and Chemical (-10.62%), affected by the wide ranging effects in the oil & gas sector of the fall in global oil prices following lock-down, combined with Russia and Saudi Arabia flooding the market to push out U.S. shale production; Ping An Insurance (+3.34%), whose chairman stepped down from his Co-CEO role at the same time as one of its smaller competitors was reprimanded by the authorities, creating heightened sector uncertainty - longer term, life insurers are beneficiaries of reflation, which could potentially materialize; Posco (+11.99%), with Korea generally underperforming emerging markets over the period - and with cyclicals underperforming the most - Posco is a new very cheap position in South Korea to benefit from an eventual pickup in construction, as we think that countries returning to some kind of normal should trigger a rise in steel demand.

Our general positioning in our emerging markets strategy hasn't changed much in the quarter, with only one exit. We withdrew from Industrial and Commercial Bank of China in mid April, due to disappointing performance with regards to its capacity to harness economic growth generally, and particularly with Covid. Most Chinese companies have some degree of government involvement, either through the way government planning affects their activities or in more direct ways. State-owned ICBC is directly managed, and while this did not preclude it from investment, it means that going forward it is more risky as it may well commit "National Service" by lending at less favourable rates to lower quality companies.

We have therefore added to our position in China Merchants Bank from an initial 1% in early April to now 2.9%. CMB is earning more than half of its revenue from retail, which is in line with our positive stance on the development of services for the Chinese middle class, for which wealth management is burgeoning. Its very strong fee income growth is supported by its leading private wealth business and by an experienced management team. A valuation currently at 9.7X trailing earnings, a PEG lower than 1, a P/B of 1.5 and a ROE of appr. 15% make its stronger non-performing loan provision coverage than peers at 450% acceptable. We also have initiated a position in Russian firm Qiwi in early August, a merchant acquirer payments platform that facilitates quick and easy transactions between online and offline, for businesses and also for individuals sending money to friends and family, sports betting, etc.

Our underweight China with an even beta of 1.0 works well in our balanced approach to protect our gains, as we have similarly in our Alternative strategy increased our shorts on the Chinese market to bring hedging up to a higher level. Overweights in India, Brazil and Russia represent the other end of our barbell positioning and we believe the next waves of investor optimism could bring back increased confidence in these companies.

How we managed our ethical equity strategy in Q2

Our largest contributors in Q2 were: Tesla (+103.25%), which we have been taking profits on despite its rocket trajectory - and unsurprising recent gravity pull; StoneCo (+71.35%), as mentioned above; Australian Ethical (+123.37%), which benefited from a more positive sentiment and sustained interest in its ethical investment strategies; and Amazon (+41.52%), provider of (almost) all consumption goods in the U.S. and abroad in 2020.

Detrimental to Q2 performance were healthcare stocks such as Becton Dickinson (+4.52%) and Medtronic (+2.48%), which didn't profit as much as hoped in the current period but we are glad to hold going forward in this context, and Novo Nordisk (+9.16%). Also exhibiting lackluster returns compared to the market: renewable energy and gas utility NextEra Energy (+0.15%), with a typical high valuation given its sector's defensiveness, and the Peruvian bank Credicorp (-0.29%), the country's leading bank. Peru has gone through one of the strictest lockdowns in the world, resulting in one of the sharpest economic contractions. Thus, despite a rock solid balance sheet, the market is waiting for clearer signs of recovery.

Although it seemed right to reduce our strong overweight on the winners to slight overweights or neutral positions, they kept on overperforming extensively since the market rout: Amazon, Apple, Taiwan Semiconductor, to name a few. It seems the uncertainty brought about by the virus made investors flock to the surest business activities.

Major green recovery plans are also being announced around the world such as in the Eurozone, in the U.K., pre-announced in the democratic agenda in the U.S. and likely to be announced soon in Canada, too. The announcement of the green budget by the EU had an immediate visible effect on several of our stocks involved in renewable energy and in positive environmental solutions.

Also, while our underweight U.S. prevented some gains in the period, we remain comfortable maintaining it given our important exposure to technology in that country (technology in our portfolio is neutral per the global market weighting, but a majority of our positions are in the U.S.), which increases the regional concentration risk. The U.S. dollar has been depreciating continuously since March as global confidence is being rebuilt. Our positions in Europe (namely, Schneider Electric) and in Japan have been contributing satisfactorily and we are looking to add to those regions.

The great rotation from a growth style to value is not happening, and while we remain cautious of stocks with record valuations, we prefer a balance between companies in sectors and regions that have been overlooked and misappreciated, with leaders that will likely keep accounting for a large part of their industry's activity in the foreseeable environment. We think that the market context as it is evolving, however surprising it may be, could not exactly be unlike post-2008.

How we managed our alternative emerging markets strategy in Q2

Unsurprisingly, our positive outlook on world markets was very beneficial to the strategy's second quarter return, which at 25.69% surpassed both our long-only strategy and the overall market. Our higher conviction/more concentrated positions in the alternative strategy produced similar overperformers: Reliance Industries, StoneCo, Yandex, Tencent and Semen Indonesia (+41.85%), the largest cement manufacturer in India, which recovered from overblown fears of a construction depression.

Negative performance in our specific positions was endured by Brazilian banks Banco Bradesco (-2.27%), affected by prudent loan loss provisioning and lingering uncertainty regarding Brazil's recovery, and Itau Unibanco (-0.80%), which we have exited as mentioned in our previous newsletter.

Also, the out-of-the-money call options we had sold on the Chinese market (MCHI ETF) back on March 9th, close to the bottom of the market debacle, gave us one of the two outcomes we were expecting when they were exercised slightly in-the-money upon their expiration on August 18th: a short sale providing an effective increase in our hedge on the year's highest market. In order to reduce the risk as part of our strategy to maintain a hedge at all times going forward, we had also initiated at the end of July the first tranche of a hedge on our largest country exposures: India, China, Brazil, Russia, South Korea and Indonesia. We placed the proceeds for now into emerging market debt denominated in hard dollars as well as local currencies, as we believe credit spreads will keep abating.

Best regards,

Mount Murray Investment