Montréal, February 22nd, 2021

Dear investors,

We again express our wishes of continued good health and well-being to our readers.

Our emerging market equity strategy finished the year 2020 with a return of 21.31% net of all fees, which outperformed the EEM (iShares MSCI Emerging Markets ETF) by 3.75%. The year-to-date 2021 performance as of January 31st is 1.24%, trailing the passive market allocation by 1.79%.

Our ethical equity strategy ended its second year up by 52.64% net of all fees, which was 36.55% higher than the URTH (iShares MSCI World ETF). The YTD 2021 performance as of January 31st is -0.10%, higher than the market ETF by 0.88%.

Our alternative emerging markets strategy ended the year at 15.49% net of all fees, which was 11.93% over its benchmark, the "risk-free" Canada 5-year bond yield plus a 3% premium. The 2021 YTD performance as of January 31st is 0.36%, higher than the risk-free rate + 3% by 0.08%.

Onward into the recovery

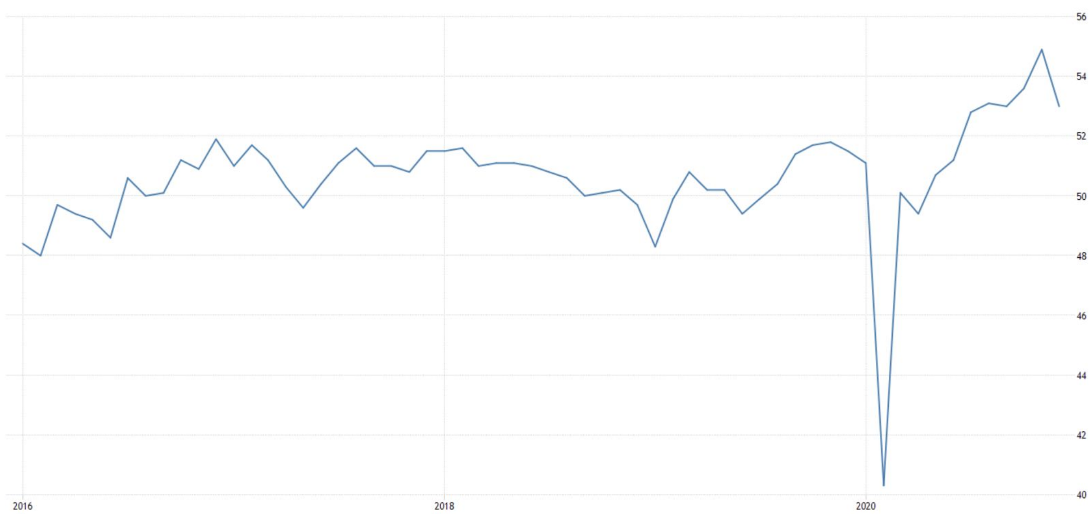
2020 was a remarkable year by any standard. Whoever you are, wherever you are, you have never experienced anything like it previously and we hope to never experience anything like it ever again!

Mount Murray closed out our second year of operations with excellent results with all three of our strategies significantly outperforming their respective benchmarks. We firmly believe that the performance reflects our attention to sound risk control, strong company fundamentals, and sensible economic analysis. When things went wrong - as they always do - we were able to take a step back, understand what the problem was, learn from it and make the necessary improvements to overcome them. Even when things went well, we didn't sit on our laurels and get complacent. We need to know if that performance was based on good process or simply good luck.

As we know, different countries dealt with the pandemic in different ways, and with different degrees of success. Some of those differences were demographic whilst others were administrative. There was an inevitability about Italy's poor performance because of its older population. Other countries, such as India, had younger populations but could not afford to go into lockdown the way Canada did. Each had to play the cards they were dealt as best they could.

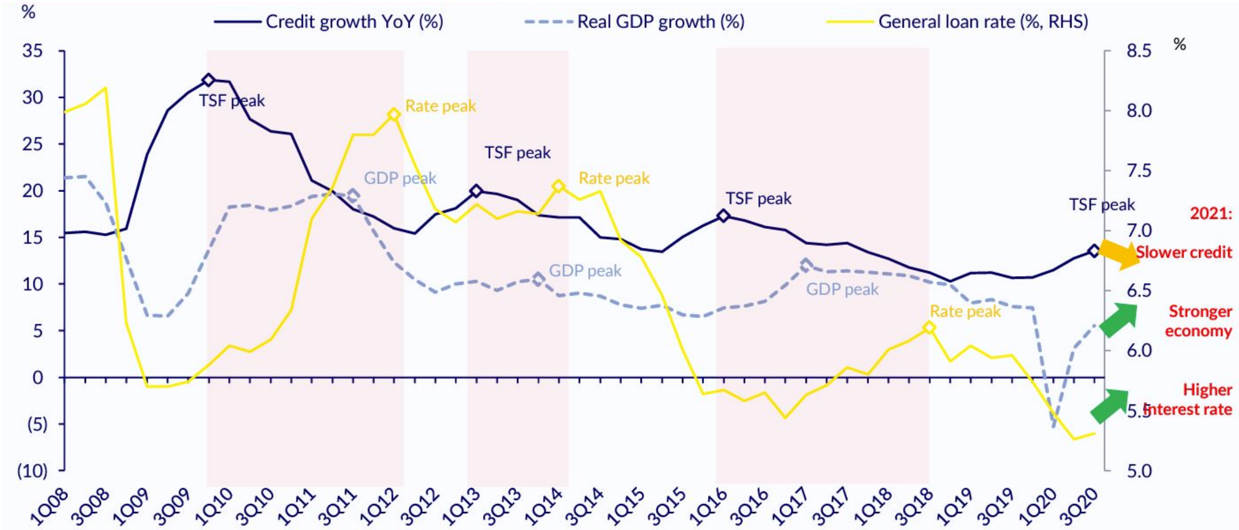
What was clear was that, at some point, "this too shall pass", as a broader return of confidence was inevitable when a majority of investors would realize that the economic devastation from the natural disaster of Covid-19 would not equal the deep structural void of the Great Recession. Once the first vaccine was approved for general use, an end of some sort came into sight. We do not know what that end will look like, but it will not be what we had before.

Many pundits will sell a lot of books telling us how things will be different in their chosen way and most will be wrong. We can only go by the information we see. Economies are reopening across the world. China has probably been the most successful in that regard, in part because of the draconian shutdown imposed on Wuhan when the virus was first admitted, followed by a strong stimulus program to mitigate the effects. The growth engine has also been returning to normal in regions that are more effectively escaping the coronavirus doldrums as South Korea and Taiwan. This graph shows the advanced measure of manufacturing activity from the Caixin China General Manufacturing Purchasing Managers Index and points to a robust growth in manufacturing activity. A similar pattern is visible in the other two regions and we can probably expect this dynamic to unfold eventually among the "delayed" Asian economies. Looking ahead, sentiment remains solid.



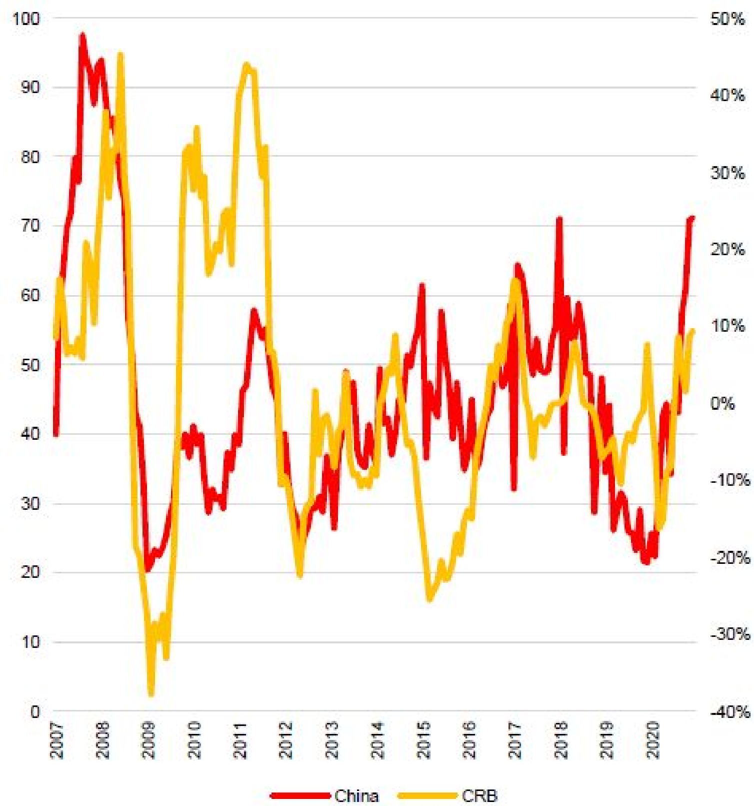
Source: TradingEconomics, January 2021

Supportive fiscal and monetary policy and successful containment of Covid-19 ensured China's recovery. The distribution of vaccines and a full global recovery should set the stage for the transition to an expansion. China's "total social financing" (TSF) is a liquidity indicator of monetary policy and shows a clear uptick as China fully supports its recovering economy, as depicted in the following graph of China's credit, economic and rates cycles.



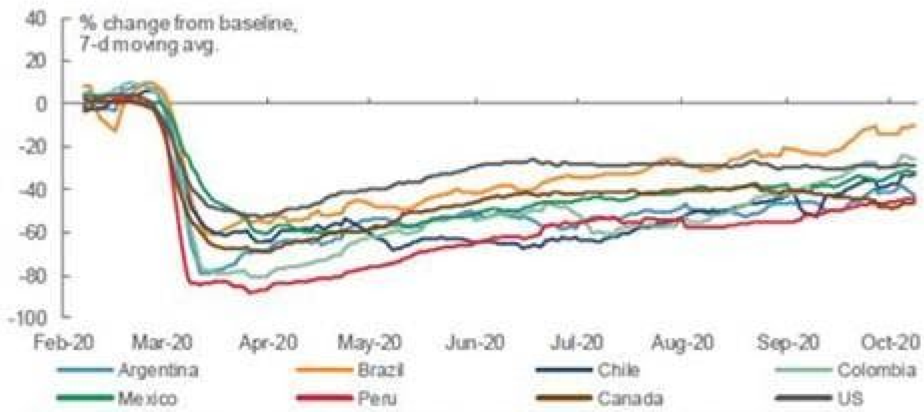
Source: CLSA, People's Bank of China, January 2021

When China stimulates, the emerging world benefits. An expansionary China is not only good news for the neighbouring countries most readily able to service its appetite, it also helps several developed countries such as Germany and Australia as well as raw materials prices. Historically, for example, there is a strong relationship between commodity prices and Chinese liquidity, as shown in this graph plotting world commodity prices against an index of the Chinese People's Bank liquidity.



Source: CrossBorder Capital, U.S. Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, IMF, January 2021

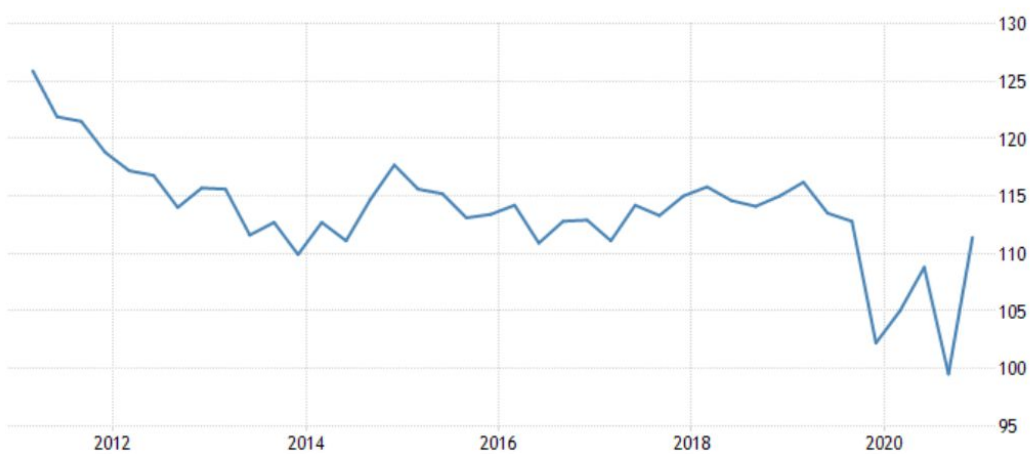
In the rest of the world, the lessons learned the hard way have given place to effective measures to reopen businesses and allow society to function. The following graph of Google mobility transit station trends shows Latin America's population movement in each country's respective transit points, such as train, bus, and subway stations.



Source: ScotiaBank, Google, November 2020

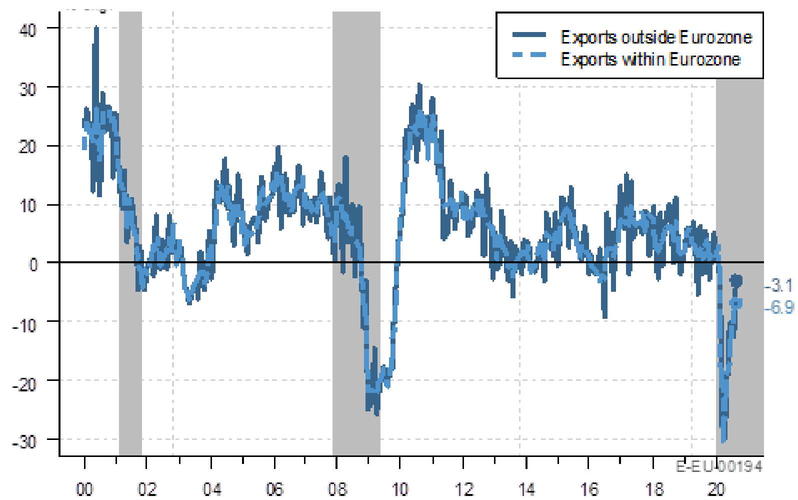
These movements coincide with the return of broader economic activity, and those positive developments were before any impact from a vaccine, let alone news of a vaccine, which several Latin American countries are in line to obtain for the majority of their population.

Now Indonesia and even Thailand are showing tentative signs of recovery, and the India Business Expectations Index (BEI) is starting to revert, as presented below.



Source: TradingEconomics, Reserve Bank of India, January 2021

In emerging Europe, the news remains difficult, which we believe creates opportunities. For instance, Russia's GDP contracted less than initially thought in Q3, with hotels & restaurants the biggest driver of the contraction, falling 25.9 percent in the July to September period after the second quarter's 56.9 percent tumble. A return of tourism, just like in Thailand, will create a significant reversal. This graph illustrates the weak Euro area aggregate exports year-on-year % change.

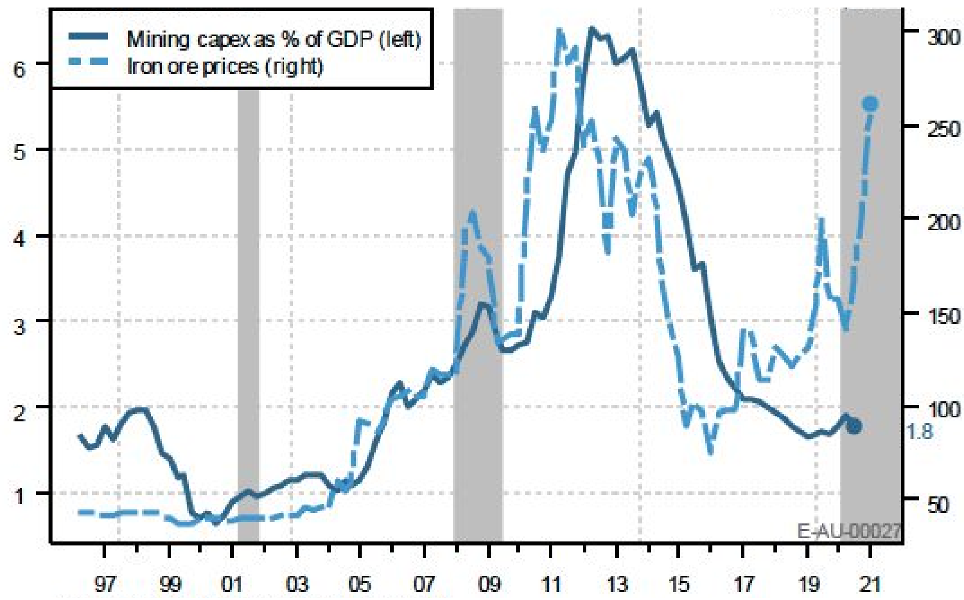


Source: Pavilion Global Markets, Eurostat, January 2021

While intra-Eurozone trade remains weak and is dragging down growth in emerging countries, Poland's lesser reliance on exports to the Eurozone, accounting for only 26% of GDP, has kept its economy better off this year. The good news for Poland is that household consumption and net exports were positive year-on-year through Q3 (in real terms), thereby reinforcing our view that Poland is faring relatively well versus the Eurozone from a macro standpoint. There is also a lot more "grit" in the wheels of global trade than there was in the aftermath of the Great Recession. Polish truckers complain of Kafkaesque rules as they try to leave the U.K., resulting in major delays that can stretch into days.

At the time of writing, President Biden and the U.S. Congress are debating their $1.9 trillion stimulus bill, and we are confident it will pass in some form. This will pressure the U.S. dollar which is another plus for commodity prices. Some are even predicting a commodity super-cycle. We are not in that camp but can certainly envision several years of improvement. As the saying goes, nothing cures low commodity prices like low commodity prices. For a short period last year, you could not give oil away, at least Canadian blend. The discount to West Texas drove the price below zero! Now prices have normalized into the $50-60 range and détente between Russia and Saudi suggests it should drift higher. Shale oil isn't going to get any financing until prices are significantly higher, and Canadian oil will continue to face obstacles getting to market. For us, as Canadians, that is unfortunate, but for the Russian and Brazilian oil stocks in our emerging markets portfolio - yes we still own oil stocks in our emerging markets strategy - it is a positive.

The stories for the other commodities are different in the details, but the trends in prices are similar. A lack of capex has left commodity markets tight, as shown in the following graph representing Australian mining Capex-to-GDP.

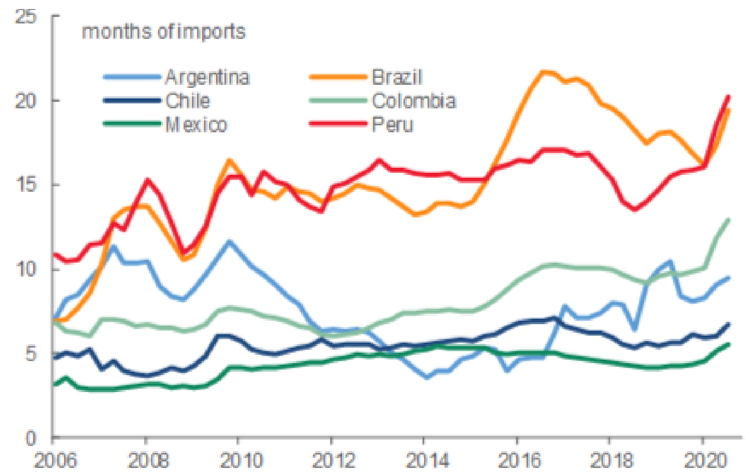


Source: Pavilion Global Markets, January 2021

What this means for many of the smaller countries within our universe is an improvement in their terms of trade. With the exception of Colombia, Latin American countries are now running current account surpluses, as shown in this graph of current account balances.

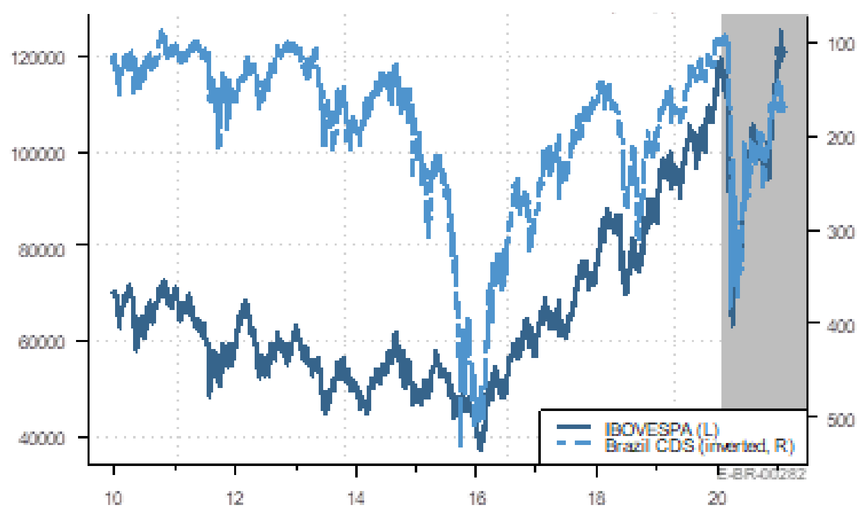
Source: ScotiaBank, January 2021

Their reserve positions have improved significantly, which means little near term pressure on their currencies.



Source: ScotiaBank, January 2021

What's more, credit default swaps (« CDS », hereby in an inverted scale against the Brazilian market Ibovespa Index) suggest that markets see little risk of rollover for the debt they have issued during the crisis. We therefore think these smaller markets are cheap and that they will re-rate as they post sequentially better results. We have already seen signs of this in Thailand and Indonesia and we still expect that trend to broaden out.



Source: Pavilion Global Markets, January 2021

Near term, we are more worried about inflation expectations. We really are in uncharted territory here. The consensus view is that we will see a spike in the middle part of the year as we lap the start of the shutdown of last year, but after that, views start to bifurcate. Some see a return to the normal of the post-recession period whereby the threat of China deflation kept a lid on prices. In many economies, companies that would otherwise have gone bankrupt have been turned into zombies, sufficiently alive to disrupt the market.

The other school of thought is that China has been allowing its currency to appreciate as it moves towards a more consumption-based model, meaning prices will be stickier. Meaningful reforms have reduced the degree of overcapacity in the system. As we mentioned earlier, commodity prices are firming after years of under-investment, and now we have the Biden stimulus. Here in Canada, something like 20% of the money we spent on stimulus is sitting in people's bank accounts, ready to be spent when we are all allowed out again. In the U.S., the absolute levels of private sector savings increased by $3.5 trillion, or more than 15% of GDP. With an unlocking of these savings, combined with sizable stimulus spending shifting from income subsidy to infrastructure, there is a possible boom looming on the horizon. Low interest rates, ample lending to corporations and individuals, and lower energy prices, also all represent a tax cut for businesses and consumers alike. Many of President Trump's trade wars will fester on, even if at lower intensity, and then there is the Covid effect.

Global container shipping rates have surged as capacity is constrained - as shown in this graph of the Shanghai Containerised Freight Index of shipping prices - and a lot of equipment is in the wrong place.

Source: Macro Strategy, January 2021

If western consumers do spend their forced savings at the same time as the U.S. stimulus plan kicks in, things could get "frothy". The rise of populism has certainly gotten the attention of politicians around the world, and we would see efforts to curb that as mildly inflationary too. The yield on U.S. 10-year bonds is already up 50 bps to 1.08% since the July low, and is expected to reach 2.5% by the end of 2022.

At this point, we would see a "normalisation" of inflation as a positive. We don't see a return to 1970's stagflation. The market may however be shocked to discover that deflation has passed. In any case, the world economy is still operating far below full capacity. Without an effective vaccine, these output gaps would be difficult to close because social distancing and fear of infections among consumers would prevent some sectors such as airlines and hospitality from fully recovering. Overall, we remain constructive. We believe we are entering a sweet spot for both emerging markets and ESG investing and we expect that sweet spot to last several years. We hold that view even as the second wave unfolds, and the economic numbers inevitably worsen, the effect is only temporary; this too shall pass.

How we managed our emerging markets equity strategy in H2

Combining our long term stock selection with our four-pronged macroeconomic analysis of political environment, economic tendencies, long-term valuations and market sentiment assessment, our team bases its allocation on forward looking global investment themes. Needless to say, the overarching theme in H2 2020 was the recovery in the various sectors and regions we are positioned in. The recovery of cyclical sectors has changed the leadership of the market from the more defensive technology stocks which offered earnings visibility throughout the lockdowns to the more cyclical stocks which stand to benefit from a return to normal activity. This is what we expected, as we mentioned in our previous newsletters, and we were positioned for this early on.

For investors, it will be hard to top the performance of post-March 2020, especially November. In fact, the double digit returns seen across asset classes, equity markets, styles, and individual stocks in the single month of November were particular. These gains across the universe of investable assets came during a month in which clarity emerged on major worries still facing investors in 2020. Combined with improving economic news, this tilted further the balance of optimism on prospects over the next two years as opposed to the next few months of winter in the Northern hemisphere. As we have argued extensively before, the table was already set with massive liquidity injected in financial markets and more on the way.

Our largest contributors in H2 were:

- ❏ StoneCo (contribution of +2.63% to portfolio relative performance, period return of 117.13%) the Brazilian payments processor and merchant acquirer. Focusing on the small transaction "Mom & Pop" market so often overlooked by the major Brazilian banks, it has shown extremely high levels of profitable growth, and most interestingly for a startup, of free cash flow generation. In Q4, it successfully acquired another Brazilian "fintech" that enabled it to secure more of the value chain and expand its client offering.
- ❏ Xinyi Glass Holdings (+2.72%, period return of 129.49%) is a major producer of flat glass in China, especially glass used in solar panels. The company is expected to be a major beneficiary of the global push to alternative energy sources. In addition, there is an ongoing push by the Chinese government to reduce excess capacity in the industry, which should help margins going forward.
- ❏ Anta Sports (+2.57%, period return of 80.52%) is a major player in the global sportswear sector, owning the Anta brand as well as the rights to several international brands it acquired. It has done a good job of integrating those brands into the portfolio at the same time as it was able to accelerate its online presence. Its omnichannel strategy now comprises significant investment in physical stores for its distinct brands to harness customer loyalty.

Laggards were:

- ❏ Qiwi (-0.47%, period return of -46.84%) is a multi-channel payments provider in Russia and the CIS. In December, it announced that it had been fined approximately $150k by the Russian Central Bank following a routine audit, due to weak reporting and record keeping. The fine is not material as it represents less than 0.1% of 2020 pre-tax profits, but previously in Russia, fines have been used to force out controlling shareholders, hence the collapse in the share price. The company insists it is working closely with the regulator to correct any deficiencies. We have been reducing our position in the meantime.

- Alibaba (-0.44%, period return of 7.58%), the titanic Chinese internet retail stock whose charismatic former chairman appears to have suddenly upset people at the highest levels in China. This comes at a time of greater scrutiny of the sector within China and abroad. It has resulted in the spectacular postponement of the IPO of its financial arm Ant at very short notice, when it had been expected to be the world's largest IPO. We see this somewhat as a sign of the times as the European Union and the U.S. are moving in similar fashion with regards to the concentration of power in Big Tech, consumer privacy, and untested fintech to supplant traditional banking models while stretching the regulations framework. We have therefore maintained our slight overweight in the stock.
- Sinopec (China Petroleum and Chemical Corp, contribution of -0.06% to relative performance, period return of 9.86%) the major Chinese state-controlled integrated oil co, which enjoyed significant operational improvements, but the sector was firmly out of favour. Looking ahead, we think that clarity in the U.S.-China relationship will bring renewed confidence in world markets and that governments' and central banks' commitment to a sustained recovery will lend itself to strong emerging markets and commodities performance.

How we managed our ethical equity strategy in H2

Our largest contributors in H2 were:

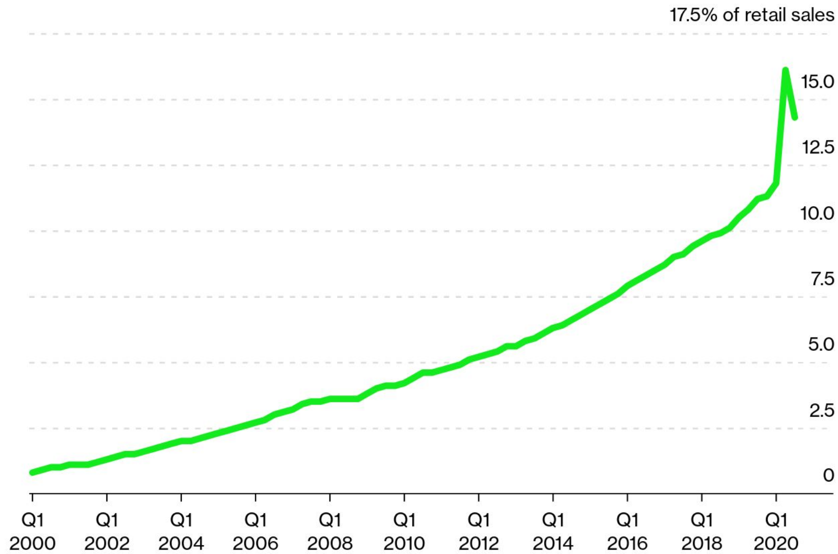
- Tesla (contribution of +4.40% to portfolio relative performance, period return of 220.12%)... it's Tesla! We initially bought the stock - which is now hovering around 800$ - at what was an equivalent price of 153$, following lengthy debates within our team, when it started earning positive free cash flows and more importantly, when we were reassured about its capacity to service its debt through a massive equity offering. The "Elon aura" helps the company's balance sheet tremendously by ensuring great access to equity markets, and now S&P 500 privileges. The company also achieved a 36% growth in vehicles delivered during 2020 while most OEMs saw a contraction. But the competition is finally showing its teeth, both in great EVs and in the upcoming connected fleets. Tesla's sandbox is about to get way more crowded, and not just in China anymore. For this reason, we keep on taking profits on the position.
- BYD (which stands for Build Your Own Dream, contribution of +3.52%, period return of 245.00%) is a Chinese supplier of mass transit electric vehicles and batteries. Its EV buses are used in many countries, which makes it a direct play on green infrastructure initiatives globally.
- StoneCo (+3.50%, period return of 117.13%), which we also like in this strategy given its significant focus on smaller businesses in Brazil, enabling productivity gains and better customer access.

It is notable when even the underperformers make non-negative contributions. None of the three bottom performers in our ESG portfolio are beneficiaries of Covid reopenings:

- ❏ Australian Ethical (-0.49%, period return of -15.76%) is a small cap stock that has low liquidity, making it very difficult to trade. It tends to be quite volatile, but we chose it as an excellent play on the growth in ESG assets in the Australian Superannuation scheme. As an interesting piece of information, it was already investing according to detailed ESG themes back in 1986, and enriched our thinking on our own ESG strategy.
- ❏ Apple (+0.08%, period return of 45.86%) was held underweight as it plateaued after a very strong start to the year given the impactful nature of its business, expert at making people's lives easier and a great vector for education, with the additional honor of being a strong defendant of its customers' privacy. While it has issues in its supply chain about environmental footprint and employee treatment - as each large company can only have a grey-tainted ESG file at best - we balance out the impacts of the most significant revenue streams and find it to be a leader beneficial to society, for now at least.
- ❏ Microsoft (+0.08%, period return of 10.00%), has seen its stock shoot up after the end of the year once it recorded a welcome acceleration in its Azure cloud computing revenue growth.

In September, we eliminated a controversial position in our ESG portfolio: Xylem. We always ask ourselves: where do you draw the line on ethical practice? Xylem, which once was the water-treatment unit of ITT before it was spun off, had since become a darling of the environmental investing crowd as its shares are up fourfold. However, it became apparent to us that its water treatment unit was mainly involved in supporting the extraction of some of the dirtiest fossil fuel, i.e. our Canadian oil sands. With such an important part of its growth tied to an industry that we did not wish to focus on with our clients' capital in this strategy, we decided to exit the position.

On the ESG front, 2020 has seen a confirmation of sustainable criteria as relevant inputs to seek alpha. Clean energy, particularly solar and EV, should continue to benefit from favourable fund flows and supportive, synchronised global environmental policies. And of course, online retail sales, which, in the U.S. for example, have increased by about a third in 2020, propelled by the need for social distancing as well as effective and reliable daily supplies, while total retail sales have barely budged at approximately +1%. The next graph shows U.S. total e-commerce sales as a % of all retail sales.



Source: Bloomberg, U.S. Census Bureau, January 2021

This dynamic was already under way and the main reason why we liked Amazon and electronic payments platforms, for instance. Through effective logistics and easy-to-use interfaces, they make people's lives easier, save time and support leaner inventory and better resource management. What they have to achieve and what governments around the world, including in China, are now intently focused on, is allowing equal access to business opportunities for their smaller competitors and business suppliers/clients. New industries command a rethinking of old rules, but you can hardly ask successful companies to regulate themselves.

As mentioned above, we try not to be complacent. Things look good, but there are some potential negatives that we are monitoring as well. The backlash against Big Tech isn't going to go away. Republicans may want to pile on because they felt that Big Tech was biased against them during the election, whereas Democrats see them as enablers of the former President; Europe and Canada worry about the taxes they don't pay, whilst China is worried about their role in exacerbating inequality. Their ability to buy up and stifle competitors is a big problem. This will take a long time to play out. We may not see any meaningful legislation for years, and it is impossible to tell in which jurisdiction it will come first, but it is coming. Fear of missing out (FOMO) has pushed the valuations of many of these same stocks to incredible levels, fueling fears of a market bubble that rivals the turn of the century tech bubble. One might even describe the number of people describing the market as a bubble as being a bubble…At this point, we should remind ourselves that it took an increase of 175 bps in the Fed funds rate to spike the tech bubble, and Fed funds are not going up this year, and probably not next year either.

We are excited that President Biden's stimulus includes a strong emphasis on the climate crisis. We believe this is the right thing to do, and that real action has been delayed for far too long. We would like to think that 2020 was the year ESG became mainstream. The new emphasis will benefit different areas of our portfolios. Operators of wind farms, makers of solar panels, and electric vehicles are obvious examples, but it goes beyond that. There is a lot of steel in a wind turbine, both in the hubs and the towers. The continued demand for copper will support countries like Peru and Chile.

How we managed our alternative emerging markets strategy in H2

Our alternative emerging markets strategy uses a concentrated selection of our favorite researched positions from our long-only strategy and aims for a significant absolute return year-in, year-out. We also use risk-based weightings to allocate between positions and hedge exposures.

Therefore, our top three positions in H2 were: ICICI Bank (contribution to portfolio absolute return of +3.28%, period return of 60.16%) and HDFC Bank (+2.97%, period return of 59.05%) in India, given their lower volatility and thus higher proportional dollar value in our portfolio, as well as StoneCo (+3.17%, period return of 117.13%). ICICI Bank is a private bank positioned strategically with individuals, both in mass retail and high net worth. HDFC Bank is an affiliate of Housing Development and Finance Corporation and is also predominantly a retail bank giving it a cost advantage in deposits. India's private banks have gained market share from the State Banks through better service and better product offerings, enhanced by strong IT infrastructure.

Our three most detrimental positions in the period were: Qiwi (-1.29%, period return of -46.84%), as mentioned above, Lukoil (-0.12%, period return of -1.92%) which, despite proactive measures to alleviate the impact of its activities, was unfavored and followed the energy cycle, and Estácio Participações (+0.03%, period return of 2.55%), the second largest higher education services company in Brazil, which suffered plummeting attendance. While we are progressively withdrawing from Qiwi, we remain invested in the other two names.

In October, we diversified the portfolio further by adding more of the names favored in our long-only EM strategy (from 27 names to 34 names), attempting to reduce its overall volatility while increasing its potential to participate in the market upside, as we expected the market strength to broaden in the context of a "beyond-Covid" recovery. We therefore used some leverage at 16% of the portfolio capital and were in a position to reverse it in early November, after the stronger than expected market rally, when it was filled with the short proceeds from a simultaneous increase in our systematic equity country exposure hedges. This proved to be a useful transition to a more hedged portfolio, providing a return of 18.15% in the month of November alone, whereas the EEM (market ETF) recorded 9.19%.

We are now considering increasing our country hedges further and using the additional short proceeds to capitalize on an increase in volatility by monetizing it with covered at-the-money calls.

A conclusion on 2020

We think that the markets are right to put a lot of emphasis on the early positive developments in the real economy. Although the emergence of effective vaccines is very positive news, the countries more badly affected will feel more pain before things get better. Effective mass inoculation is extremely hard to achieve. Polio, for instance, has still not been fully eradicated by the widespread use of vaccines. However, capital markets could remain buoyant at this point.

Notwithstanding the lingering effects of both the Great Recession and the pandemic, which could ultimately bring us to our next major crisis, we believe major market weakness could be several years away, thanks to the prolonged suspended disbelief in debt problems the world is likely to entrench itself in again and inflation which could effectively devalue it.

Governments justifiably feel responsible to support economies in lockdown after failing to contain the virus with effective targeted measures upon its early onset. But the great cuddling of the global economy does not come without risk. Similar to helicopter parents, helicopter governments and central banks run the risk of making their economies weaker, Japanifying them by interfering with natural asset pricing which drives down return on investment and therefore hampers productivity growth.

Ultimately, the debt prescription that governments and central banks have issued, giving such a greater role to those institutions in capital markets, will have to be rescinded by them too. We believe it's safe to say that their final act will be very difficult and messy, and that they likely won't perform it for a long while, probably not after several more acts have been played out.

Best regards,

Mount Murray Investment