MOUNT MURRAY INVESTMENT

Montréal, September 22nd, 2022

Dear investors,

As with most assets, the performance since the beginning of the year in our investable markets has been negative, with significant daily volatility. In addition to geopolitical turmoil and the lingering effects of the pandemic which have turned into stubborn inflation, market divergences have made us become progressively prudent, while keeping an eye on opportunities.

The dominant themes of the year in emerging markets are Russia's unprovoked war on Ukraine, the global repercussions of which will last for years, China's self-imposed economic weakness due to strict covid-zero lockdowns and a regulations overhaul, and the U.S. Federal Reserve having 180'd its course to attack inflation, which was exacerbated by the former two developments. The current economic landscape in emerging markets can seem bleak at first glance. The arrival of millions of refugees into Eastern Europe is going to stretch governments there to a breaking point, while the major European economies are facing pressure to cut themselves off from Russian hydrocarbons sooner rather than later, at great cost to their populations. For many lower income commodity importers, poverty is getting worse. Russia, which is untouchable by many, and Ukraine, which is partly unreachable, are among the top 5 global exporters of several important commodities, agricultural and mineral, including fertilizers and other inputs that largely affect future production. This implicit tax on input costs and on consumption keeps increasing as the disruptions from the conflict drag on. Rising wheat prices, for which the two countries account for almost 30% of global exports, are squeezing the poor and worsening budget deficits. We saw turmoil in Sri Lanka and in Egypt, markets we are not currently invested in, as a case in point: food riots may produce sad consequences, such as giving the Muslim Brotherhood an opportunity to gain followers. We have also seen unrest in Peru and other Latam countries due to higher food prices. Like the pandemic, the inflation problem creates major political waves.

Volatility galore

Political uncertainty is affecting equity markets. China has been sticking slavishly to its zero Covid policy, necessitating the lock down of major cities and industrial hubs. This, in addition to a voluntary market correction brought upon the real estate sector, as well as in big tech and other industries such as education services, has been hurting business and consumer sentiment. Clearly, China's economy is under pressure, affecting its trading partners, and despite recent rhetoric to the contrary, the government has been mostly determined to cement its policy mistakes, at least while we're still on this side of the major Communist Party National Congress to be held this October. In Latin America, President Bolsonaro of Brazil is trailing his rival for October's presidential election, Luiz Inácio da Silva (known as Lula), in what is a polarized contest. In Mexico, President Lopez Obrador won a partial victory over his electricity reforms that will further discourage much needed foreign investment. In Peru and Chile, inequalities create unrest and governments are constantly being challenged.

On the bright side, higher commodity prices have obviously benefitted the major exporting countries, such as most of Latin America, the Middle East and Africa. Equity prices were supported by this as long as central banks weren't perceived to overshoot on interest rates and potentially destroy global growth. However, many central banks in emerging markets have preceded the Fed in hiking interest rates preemptively. China has pledged a return to target growth and is attempting to ease monetary conditions. Also, most countries are still relaxing covid-related restrictions, which helps alleviate inflation problems coming from restricted production. While it can be argued that the global economy now finds itself in a certain form of early stagflation, it is misguided to expect a prolonged stagflationary period a la 1970's, which, although a growing probability, remains a minor one given the momentum in the global economy. There has been pent up demand to replenish some inventories and some much needed capex in many sectors - which will also eventually take pressure off inflation. The Western labor market overall is still tight, supporting a resilient consumer, and balance sheets of households, companies and governments are still strong globally, including several emerging markets, where foreign currency reserves are much higher than in 1998 for instance (see graph on p. 12). Also, the global banking system has been tested in prior years by the financial crisis, with a resulting heightened coordination. This is not to say that renewed volatility in capital markets will not cause accidents and casualties in the financial system, but not necessarily systemic ones. The degree and length of the pressure from rising rates will be key. Orderly wind downs, while painful, are almost desired in exuberant markets, and much better than forced liquidations. Several emerging markets have been pricing in their equities and currencies a level of distress which is significantly high in our opinion. There could be further market corrections, but we do not believe that the actual data to date supports an extremely fearful stance. We should know soon whether a global consumer recession is starting, but there isn't sufficient information to reach this conclusion yet. Prudence is mandatory as the situation is evolving rapidly, with significantly diverging implications for portfolios, however we think that an over-allocation to defensive positions is an expensive bet.

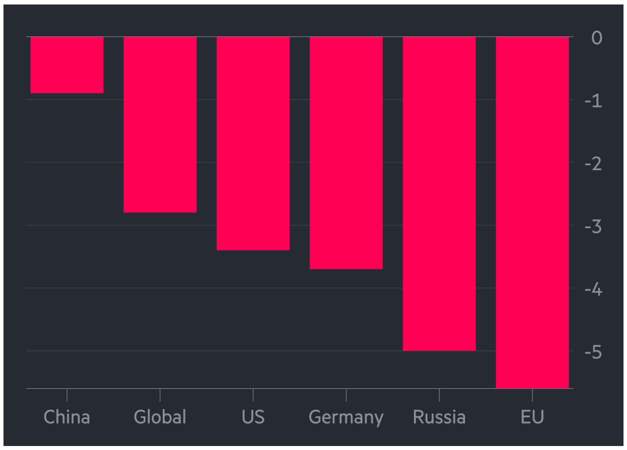
Russia

In our emerging markets strategies, we were slightly overweight Russian stocks going into the crisis, given what were generally low valuations and a strong growth outlook. The country's dividend yield remained the best of any major emerging markets, with a strong upward valuation re-rating thesis on pay-out increases. In fact, the Russian stock market, which stood at ~3% of the MSCI Emerging Markets Index at the time, had been one of the world's top performers last year through October for these reasons, and we had been taking profits on those positions, going from a ~4% overweight in October 2021 to ~1% prior to the invasion in our Long and Alternative Emerging Markets strategies. We had avoided the most politically "poisonous" stocks, like Gazprom and Rosneft, but we were overweight Sberbank, Russia's largest bank which is controlled by the central bank (which we saw as protection against political risk), as well as private sector companies Lukoil and Yandex. In our Alternative Emerging Markets strategy, we had been short 50% of our risk-adjusted exposure to Russia, which we covered profitably on March 3rd after the invasion.

Prior to the war, as the political situation deteriorated, we reduced our exposure to Sberbank not only as a straightforward risk-reduction strategy, but also because we saw it as the most vulnerable to any increased sanctions that might have been used to "deter" Russia. Like a lot of people, we never imagined there would be an actual war and we were still invested when markets were shut down. We held two Russian stocks, which were traded through instruments listed in London and New York and had already become non tradable on February 28th (Yandex in New York) and on March 3rd (Lukoil in London). Russia was then taken out of the MSCI EM Index on March 9th 2022, and all stocks were suddenly assigned a price of approximately 0. We would prefer holding on to the existing positions in some accounts until the time that they are tradeable again, which is unclear for the foreseeable future.

The following graph illustrates the immediate effects of the war on global trade volumes, showing that this is genuinely a global problem.

Global goods trade % change vs previous month
March 2022

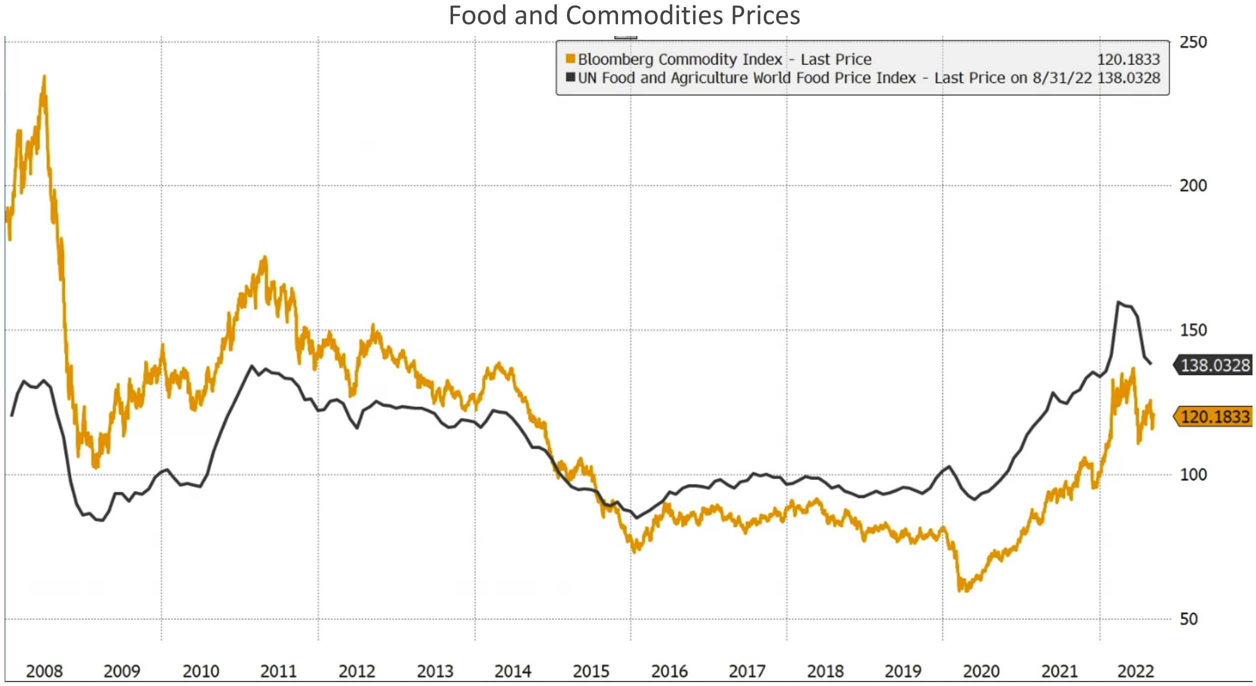


Source: Financial Times, April 2022

The war is unquestionably inflationary, at a time when such pressures were already growing. Russia and Ukraine are key producers of several commodities, both soft and hard. For energy and food, the supply constraints for the world are significant. Ukraine had said about 50% of its wheat exports might be lost, and some are assumed to have been smuggled out of the country by Russia. A recent agreement to protect ships leaving Ukrainian ports has allowed Kyiv to resume millions of exports of grain through the Black Sea, which is crucial for the global food supply situation. A few countries have been banning palm oil, wheat exports and other goods to protect themselves. Substitution by farmers for the most needed produce creates negative output gaps in other crops. Fertilizer constraints affect future harvests.

The next graph shows the UN Food and Agriculture World Food Price Index (cereals, vegetable oil, sugar, meat, dairy) and the more inclusive Bloomberg Commodity Index (oil, gasoline, cereals, precious metals, industrial metals, sugar, coffee, cotton).

Food and Commodities Prices



Source: Bloomberg, September 2022

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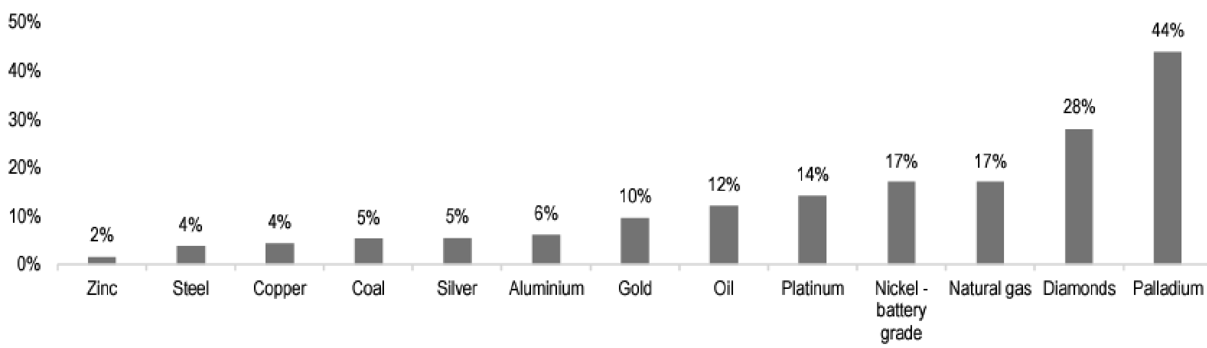
Food prices, which were already uncomfortably high since March 2020 due to supply tightness, have soared way beyond their level of the Arab Spring crisis (June 2010 to April 2011). Wheat transported from the Black Sea ports normally feeds a billion people and was difficult to plant this spring, so it will remain in short supply next year too. Some has been shipped by rail at higher costs "while supplies lasted", but we should expect further hoarding by consumer countries going forward. Any backup plan is costlier. This is true for most commodities of which Russia and Ukraine are major exporters. While some Russian exports can still reach markets, some commodities which require imports such as alumina, maintenance parts, or machinery for expansion projects, as well as access to international capital markets for financing, are under constraint. The lockdowns in China and hawkish central banks may have alleviated commodities price pressures temporarily by pushing down on demand, also consumption shifts from hard goods to services have contributed somewhat to correct commodities prices, and now the agreement to protect Ukrainian grain shipments can help as well, but on the other hand China has now vowed to stimulate its economy to achieve its target GDP growth, creating potential new pressure on commodities, while fulfilling upcoming demand for energy commodities has become critical for several countries as winter approaches.

Russia's Strategically Significant Share of Global Commodities Production in 2020



Source: J.P. Morgan, March 2022

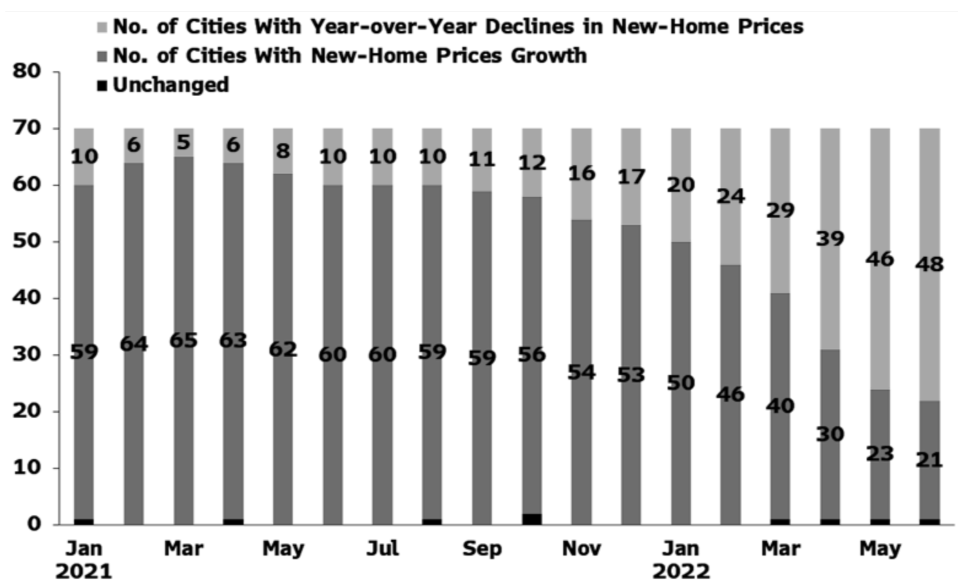
The war is also revealing fault lines between the "West" and other countries. Not everyone at the United Nations has been as swift to condemn the invasion as the Europeans or the US. China and India are still happily buying Russian oil and other products, albeit at a significant discount to normal prices and because they currently can't cope without it. A former colleague who has been working for a major sovereign wealth fund in the Gulf recently joined our weekly investment committee meeting to share his thoughts. As he put it, their interests are not the same as ours. We think a dual economic geopolitical system encourages more protectionism and that it is also inflationary.

China

To us, the main alleviating factor to commodities markets tightness in H1 has been the lockdowns in China and its government-induced real estate sector slump. The Omicron variant proved to be a major problem there. Containment didn't appear to be working at first, and the authorities appeared woefully unprepared, especially given the low vaccination rate among older age groups. Chat groups reported residents only receiving one food package in 20 days. Authorities reported 25,000 new cases in a single day, a record since the virus emerged in Wuhan. Nomura, the Japanese Bank, estimates that 200 million people in China were at one point subjected to lockdown. Even if the videos making the rounds of Shanghai residents breaking into shops to get food or being suddenly confined to an Ikea store while shopping are isolated incidents, those are not developments to be seen ahead of the October 16th Party Congress where President Xi is hoping to be reappointed for the third time. There may be a setup to declare victory against the virus and other positive developments around this time.

The Chinese consumer slowdown, caused by regulatory reforms in several sectors including real estate, and worsened by the lockdowns, has triggered a muted and initially disappointing stimulative policy response. There has been some monetary easing in the reserve ratio requirements of banks and in interest rates, but it has now paused and was not sufficient to the liking of most investors. The government has come to investors with an olive branch a few times now, proclaiming its support to complete the regulatory overhaul of large tech firms quickly, to allow the foreign listings of Chinese corporations by meeting some foreign requirements on audit transparency, and to shore up the real estate industry. It rolled out a series of pro-growth measures in recent weeks focused on corporate rescues and infrastructure investments, as well as enabling housing project completions. But subsequent actions have not all been in line with these statements and up to now, all market rallies that followed have rolled over. Aside from the political risk, continued shutdowns threaten to slow the economy further, and to delay any meaningful attempt to restart the real estate sector. The real estate industry accounts for about 1/5 of China's gross domestic product (when including construction, sales and related services). An estimated 70% of the country's middle-class wealth is also tied up in property. With the China Banking and Insurance Regulatory Commission supporting the speedy delivery of homes to buyers to choke a nascent and very unwanted boycott on residential mortgage payments, which spread over several cities, and a 1.1 trillion USD infrastructure recovery plan in the works[1], the lockdowns are a significant clog in the wheels of the economy. China announced 19 new policies aimed at beefing up efforts to rescue economic growth, which has been weakening again.

Home Prices in Chinese Cities



Source: Bloomberg, National Bureau of Statistics, July 2022

[1] Bloomberg, July 2022

As can be seen in the prior chart, although not due to rising interest rates but to tightening regulations on developers, the Chinese housing sector has been letting off steam. To be sure, it had appreciated by appr. 11% since the beginning of 2020 (and by appr. 38% in the past 5 years) - not unlike that of many other countries which recorded 20+% price increases since 2020 (US, Canada, UK, Germany at appr. +15%, etc.) and have been leveling off in recent months.

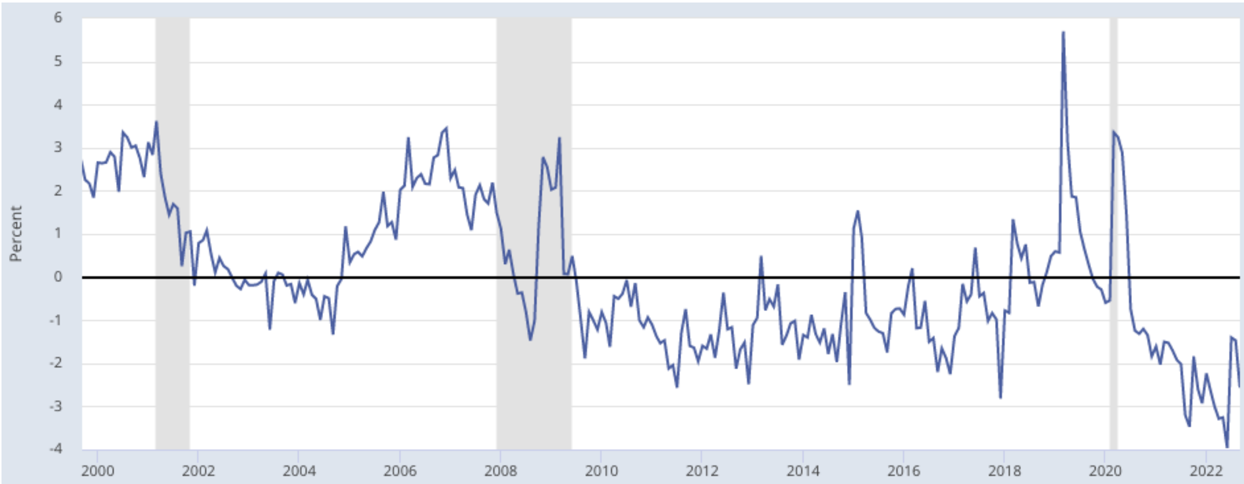
The MSCI China Index of stocks is down more than 45% from its last peak in February 2021, lagging the S&P 500 by more than 50%. The situation in China has been difficult, but is not dramatic in our opinion. Foreign currency reserves, while somewhat lower in proportion to the size of the local finance sector than during the last crisis of 2015, are still important. The lockdowns will be over one way or another. The voluntary and necessary clean up of the leveraged real estate sector is still under way. With an objective to drive GDP growth through consumption going forward, the Politburo is working to level the playing field in ecommerce and protect the middle class from several commercial practices such as insufficient employee benefits, predatory sales schemes, misleading marketing, excessive personal financial leverage, rising healthcare costs, undue educational pressure on children's free time, etc. Most importantly for us, there has been a clear change in tone, from "necessary" reforms that will take "a few years" to a pledge to reach near term growth objectives, the first step toward a better market environment. The softer regulatory tone has helped sentiment to some degree. Headline inflation is still expected to be under 3% this year. The government is not out of tricks.

The Fed

One institution which has been running out of tricks is the US Federal Reserve. Inflation concerns have now taken center stage, and rightfully so, given the latest year-on-year US CPI reading of 8.3% for August, which incorporated the highest food price inflation since 1979, at 11.4%. Excluding the more volatile but consequential food and energy prices, it stood at 6.3%. In contrast, China's published annual inflation was 2.5% in August, India's was 7%, Indonesia's, 4.69%, South Korea's, 5.7% and Taiwan's, 2.66%, while Brazil was at 8.73% and Mexico at 8.7%. Many emerging countries have recorded lower headline inflation than the US. But global inflation undoubtedly has to come down to create a stable environment conducive of trade and investment. Inflation-adjusted worker earnings have been decreasing for more than a year, killing consumer sentiment, which plunged in early June in the US to the lowest on record and has merely recovered since, according to data from the University of Michigan. Any positive developments such as the end of the war in Ukraine or the definitive end of Covid complexities probably wouldn't be sufficient to tame inflation at this point, now that it is becoming embedded. For this to happen, interest rates probably need to rise more.

The following graph shows one measure of the real interest rate: the US Treasury one year nominal rate minus the expected rate of inflation one year from now. It shows the Fed still firmly in accommodative territory, as can be seen in the negative real rate (i.e. borrowers effectively getting paid by lenders if inflation remains this high). But with the Fed key rate now at 3.25% and expected to jump again before year end, how much would it need to rise further in order to "normalize" financial conditions? Probably not as much as the 5% that some conservative predictions suggest.

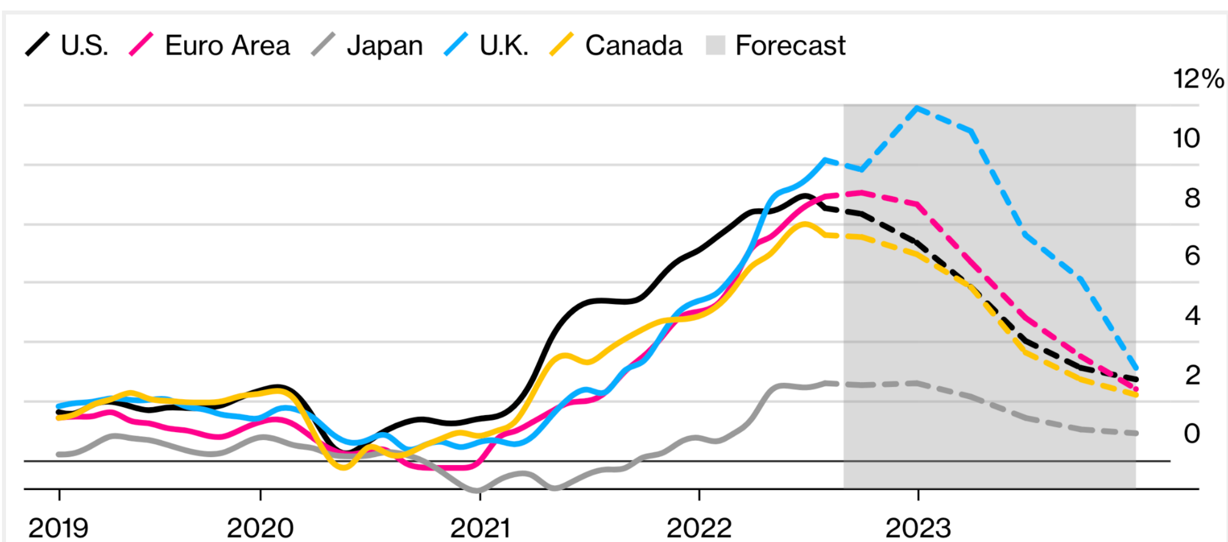
US One-Year Real Interest Rate



Source: Federal Reserve Bank of St. Louis, September 2022

Investors are currently betting that by December the Fed will have raised rates to around 4.273% and to 4.597% by next March[2]. The various Fed officials, laser-focused on breaking inflation and bringing it back to 2%, show a median expectation of hiking interest rates up to 4.375% by December, and if that isn't enough, a potential peak of 4.625% by next year, although they have mentioned they could go beyond this guidance if inflation is stubborn. There is inelasticity in investors' expectations (seen in interest rate futures bets) however as a front loading of the negative economic impact is assumed by those hikes. The story is similar in other developed countries. Market turmoil and loss of confidence constitute deteriorating financial conditions that normally slow down demand, calling for monetary tolerance, maybe in the form of a pause to reassess the damage of this slow train wreck, while inflation is still running hot.

Actual and Expected Headline Inflation Rates in Developed Countries

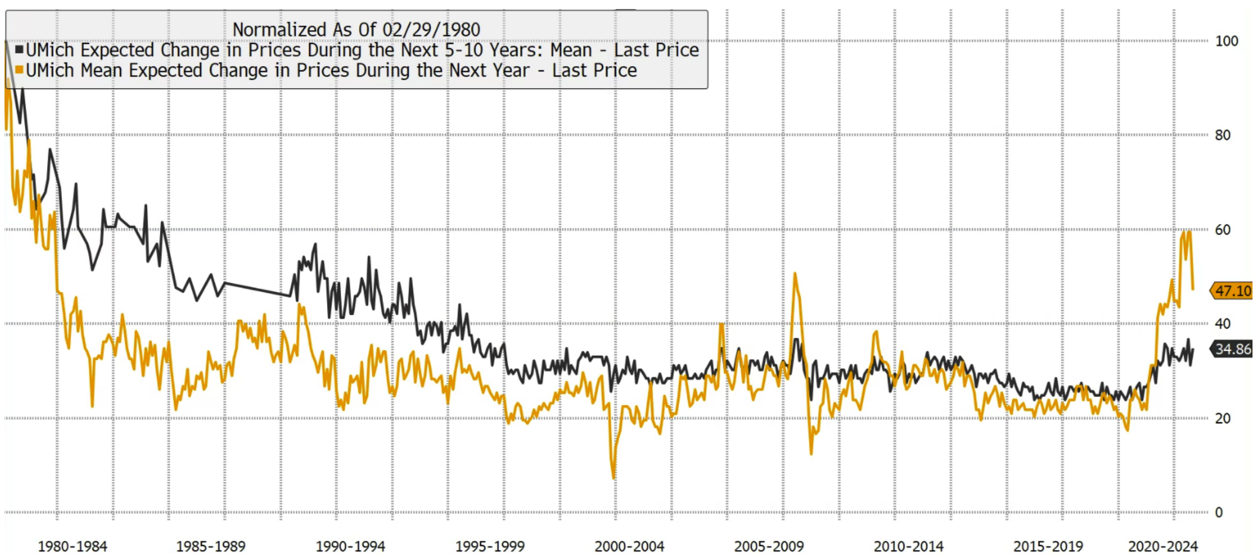


Source: Official statistics agencies, Bloomberg economist surveys, August 2022

[2] Bloomberg, September 21st, 2022

One-year inflation expectations in the US have recently reached a high last recorded in 1981, way above the 2% Fed target.

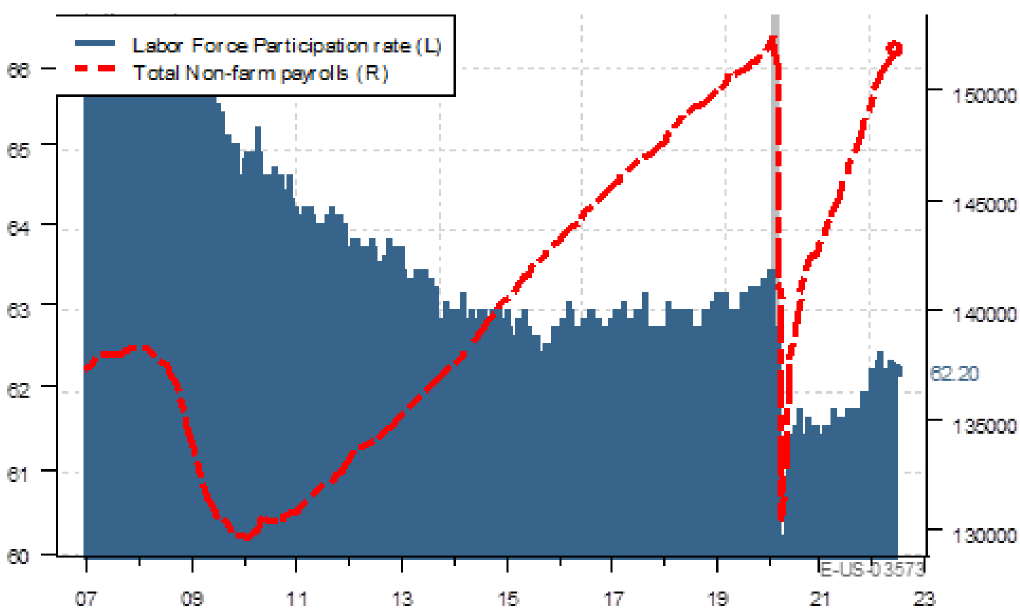
Inflation Expectations in the United States



Source: Bloomberg, University of Michigan, September 2022

The labor market in most developed countries has become a major focus. Pandemic-induced wage pressures resulted from government subsidies increasing spending while younger and older age groups were leaving the workforce. This combined with the economic recovery started another inflationary spiral. The following graph illustrates the dwindling worker participation dynamic at play in the US.

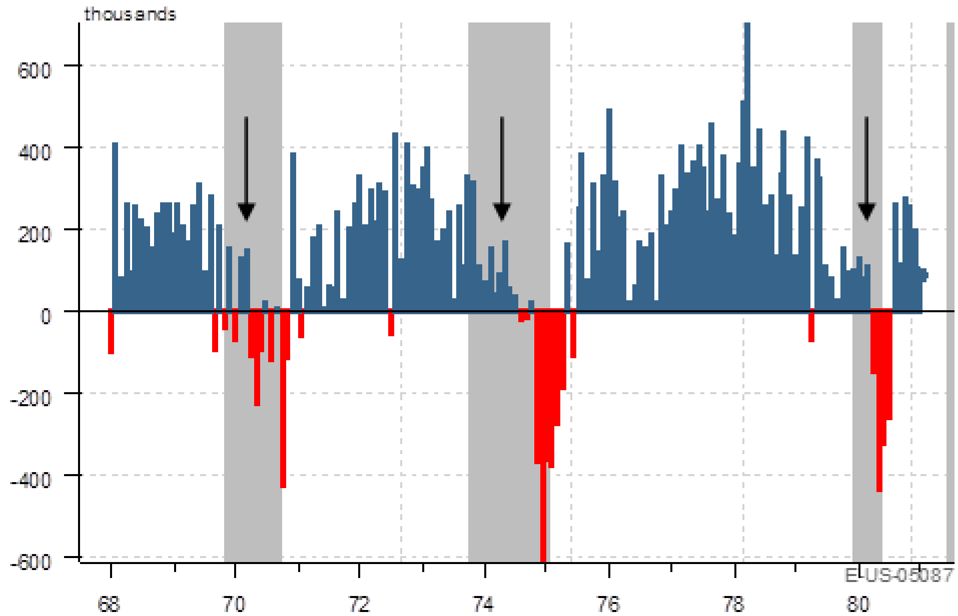
US Labor Market Participation Rate



Source: Pavilion Global Markets, July 2022

While the Fed mentioned that job gains have been robust in recent months with the unemployment rate remaining low, and the Fed chairman had previously cited this as evidence that the US economy was on track to continue to grow this year, we think there is a possibility of a 1970's like recession - although this is still not or base case scenario. The following graph shows that in that decade, the economy still recorded significant job growth as it entered recessions.

Net Monthly Change in Non-farm Payrolls in the United States



Source: Pavilion Global Markets, July 2022

Most attempts by governments to soften the blow from rising interest rates with fiscal stimulus weaken central bank's efforts to fight inflation. A few countries where financial leverage has been stretched to a record (such as Canada, as seen in its households' balance sheets), are feeling the pinch as their central bank follows the stride of the US Federal Reserve to fight inflation and also prevent their currency from cratering.

The volatility in interest rates negatively impacts business and consumer confidence due to heightened uncertainty. At this point, it can be useful to attempt to determine the level of an equity market bottom in a worst case scenario: a 1970's style stagflationary multi-year period in which central banks try to fight persistent inflation (which, again, is not our base case scenario). Markets would end up looking very different from now, as we would merely have seen the beginning of a multiple contraction (rising interest rates = rising discount rates) and not much in earnings destruction yet (smaller future cash flows). Assuming that cheap money since 2008 has fueled asset prices, we can look at their change in value since then[3].

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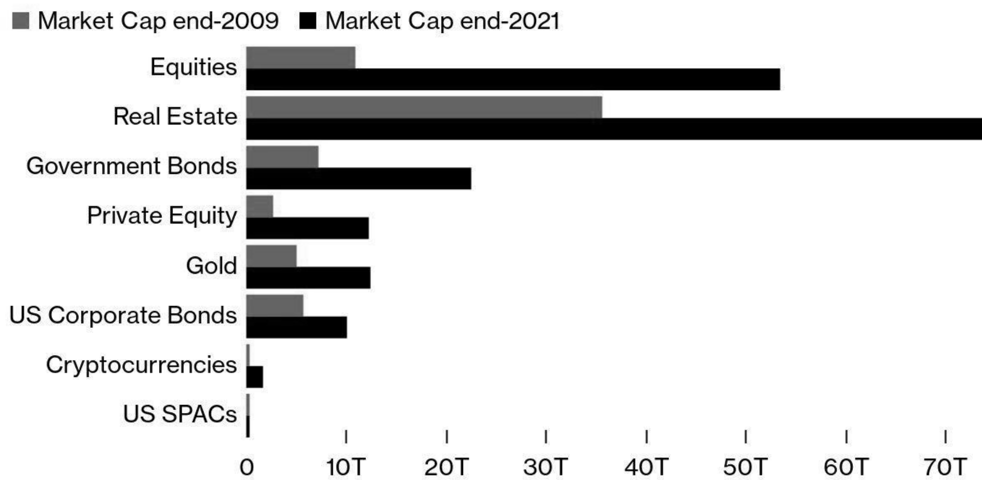
[3] John Auther, Bloomberg, May 2022

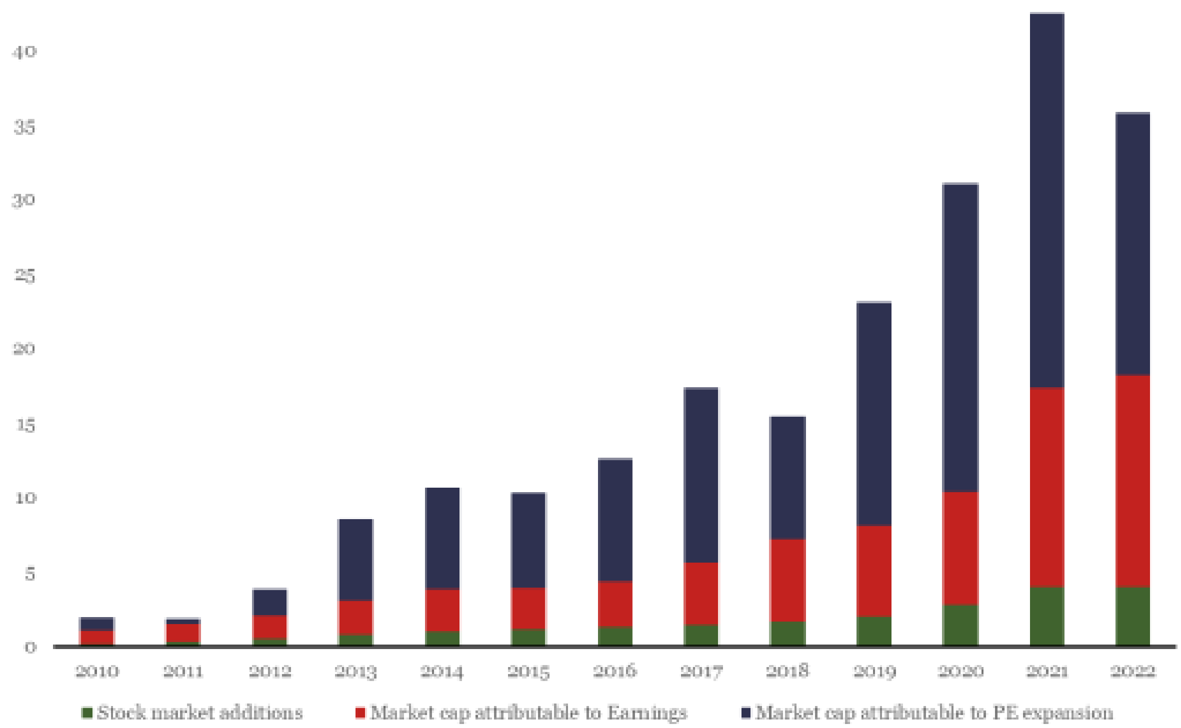
US Asset Classes Market Capitalizations



Source: Longview Economics, Bloomberg, May 2022

In the US, real estate saw the largest appreciation, followed by equities. In fact, over that period, public and private equities both enjoyed annualized returns of almost 14%, and government bonds, almost 10%... all exceptional. The picture, although not as significantly high, is similar across the globe. Something will have to give if inflation is persistent. Most of the increase in equity market capitalization has come from multiple expansion, which has been driven by "lower forever" interest rates. Here is an attempt to present the sources of growth in the US equity market capitalization since 2009.

Cumulative Change in Broad US Public Equities Market Capitalization Since 2009
New Companies vs EPS Growth vs PE Expansion (blue), $Trillions



Source: Longview Economics, Bloomberg, May 2022

Multiple expansion was fueled by low interest rates and this dynamic has been driven fully in reverse lately. Valuation multiples could contract a lot further and if they did contract all the way to their pre-2008 levels, that would mean canceling roughly half of the equity gains since then: a significant further downside risk of approximately double the correction felt thus far. On the other hand, a recession that slows demand and succeeds in bringing down inflation and interest rates, would support higher multiples than before the global financial crisis. This would be much preferable to stagflation and seems to be running through investor's minds recently whenever growth stocks resume leadership on certain days. This is the much hoped for "goldilocks" scenario (not too hot, not too cold). Faster shipping times, end of lockdowns, replenished inventories, sustained and manageable consumer spending, government stimulus with longer term impact such as in infrastructure, a return to the workforce of several workers who were looking for better conditions, a working solution to the commodities vacuum caused by Russia's war; those are the ingredients to this best outcome scenario, which few seem to believe in now.

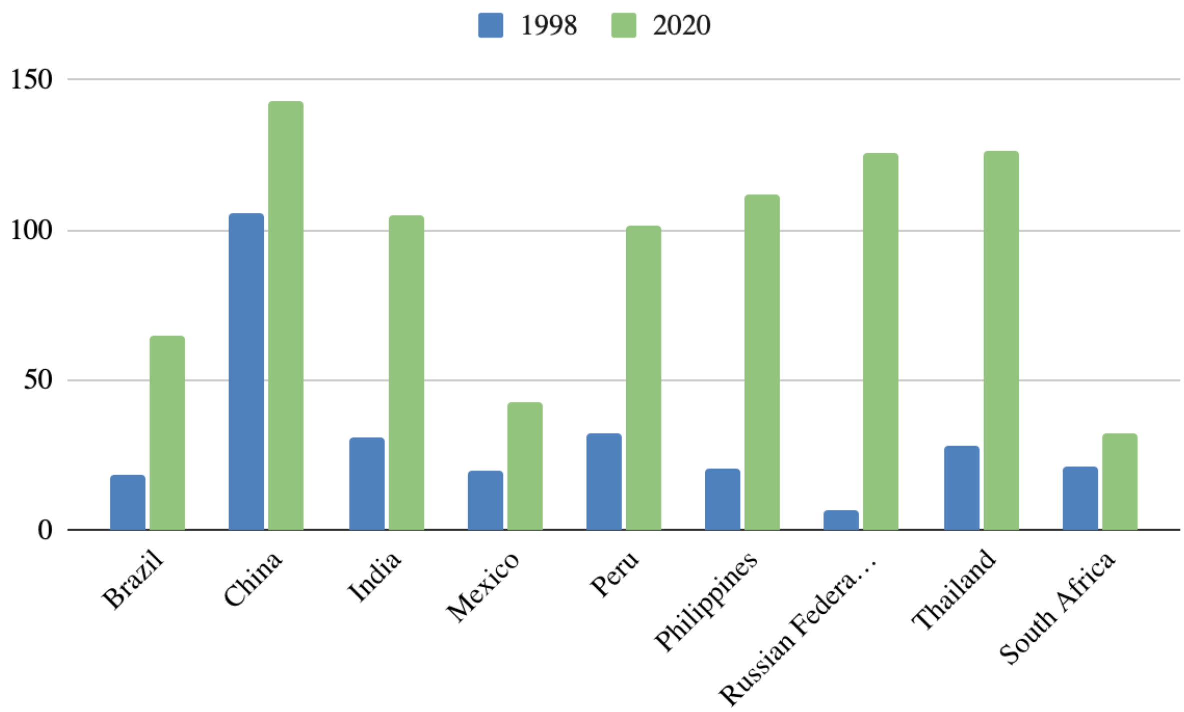
Would the Fed and other central banks tolerate higher inflation than the traditional 2% target? We have long thought so, even though their rhetoric lately has been much tougher. Inflation is a soft default on government debt as the amount due does not increase. However, the real picture is more mixed since the impact of higher inflation on income taxes can cause larger payments, as income tax bracket thresholds are not adjusted upward and taxes generally apply to nominal income. This can have the effect of reducing after-tax return on investment. The positive effects of inflation to bring down debt burdens would therefore have to be well managed. It should be the intent, as most central bank economists are increasing their long term inflation expectations. As our friend Manoj Pradhan wrote in an important book with Charles Goodhart, the challenging demographics caused by the very global withdrawal of the baby boom workforce can set the stage for higher sustained structural inflation for years to come, especially when combined with a degree of production onshoring and constraining geopolitics.

Effect on emerging markets

It is important to note here that the wage pressures aggravating inflation in developed markets are not as intense in emerging markets, many of which sent significantly lower government payments to their citizens during the pandemic. Another comment we often hear is that the problem with rising US interest rates is the negative impact on emerging markets' borrowings in dollars as their currencies weaken due to the interest rate differential with the US. However, the picture is much better now than at the onset of the Asian financial crisis of 1998, which at the time gave way to a massive flight of capital. Currency reserves provide a buffer to absorb any damaging impact of a strengthening dollar. A rule of thumb which was popularized by Fed Chairman Alan Greenspan in 1999 assumed a country's external assets and liabilities to be manageable when it could live without new foreign borrowing for up to one year - which translates into approximately 7% of GDP.

The graph below shows the level of foreign currency reserves in major emerging markets at the end of 2020 vs 1998.

Total Foreign Currency Reserves as % of Total External Debt



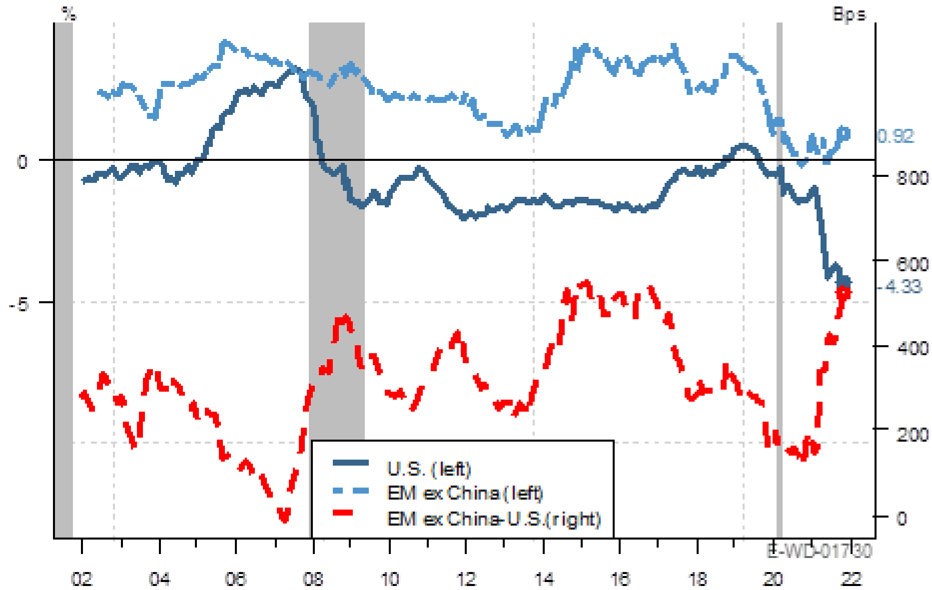
Source: World Bank, 2021

By the end of 2020, only 2 emerging market countries were below the 100% threshold. A recent paper by the Dallas Fed noted that emerging markets now have higher central bank reserves, lower foreign-currency debt and smaller current account deficits, which suggests that emerging-market balance sheets are in much better shape now. Even compared to 2013, among the most fragile countries, current-account deficits went from an average of 4.4% of GDP to just 0.4% by mid-2021, external resource flows had reduced significantly and real exchange rates were not as overvalued[4].

Also, central banks in several emerging markets have been increasing their benchmark interest rates preemptively, such as large Latam countries (Brazil, Mexico, Chile, Peru) and also Poland. Their monetary tightening process was already well under way and in some instances close to its peak at the Fed liftoff. Finally, interest rates are not rising everywhere: China accounts for 1/3 of emerging-market indices by weight and is easing to stimulate its economy. While there has been a default by smaller countries such as Sri Lanka and Lebanon, a central bank intervention in Chile, the Czech National Bank in August left policy unchanged while the Brazilian central bank is expected to do the same tomorrow. Overall, emerging markets are in a different part of the market cycle than developed markets, as can be seen in the next graph showing positive real rates in emerging markets ex-China.

[4] Source: Dallas Fed, International Banker, May 2022

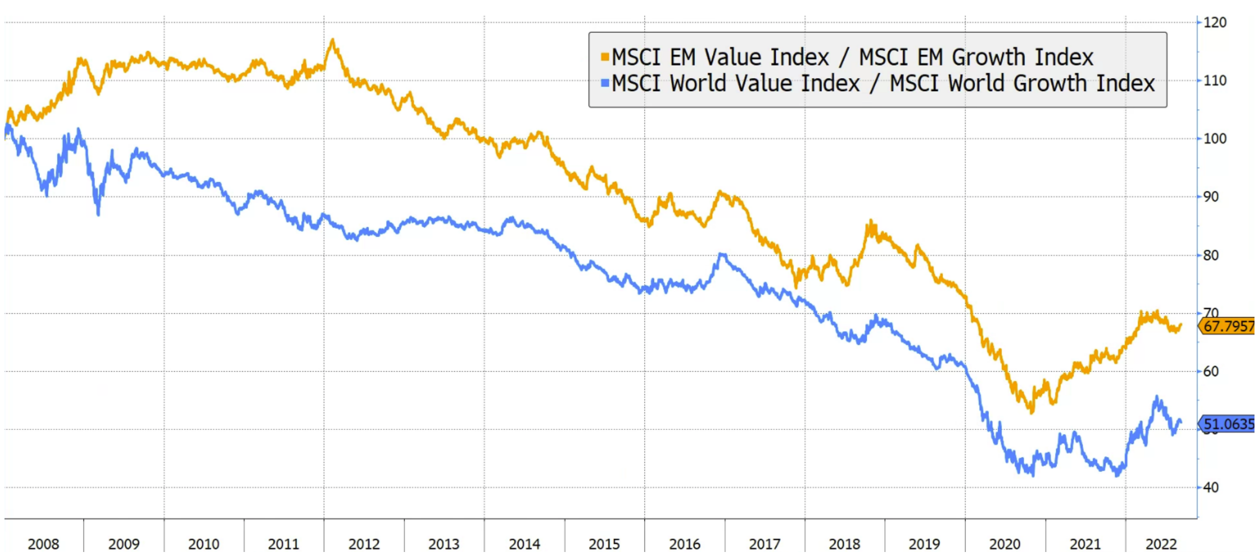
Emerging Market Central Banks Key Real Rates



Source: Pavilion Global Markets, June 2022

The Fed's most aggressive policy tightening in decades is nonetheless affecting most emerging market assets, with little regard to those that should do well in the current environment. Value stocks, with high dividends and cheap valuations, found buyers in the US and Europe while technology growth stocks were disavowed until recently. This rotation was also seen in emerging markets. The MSCI EM Value Index has tumbled 13.68% in the six months to June 30th, tracking a 20.97% decline in the corresponding gauge for growth stocks[5], as can be seen below.

Performance of Value vs Growth Factors



Source: Bloomberg, September 2022

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[5] We must note, however, the turnover of appr. 30% in these factor indices.

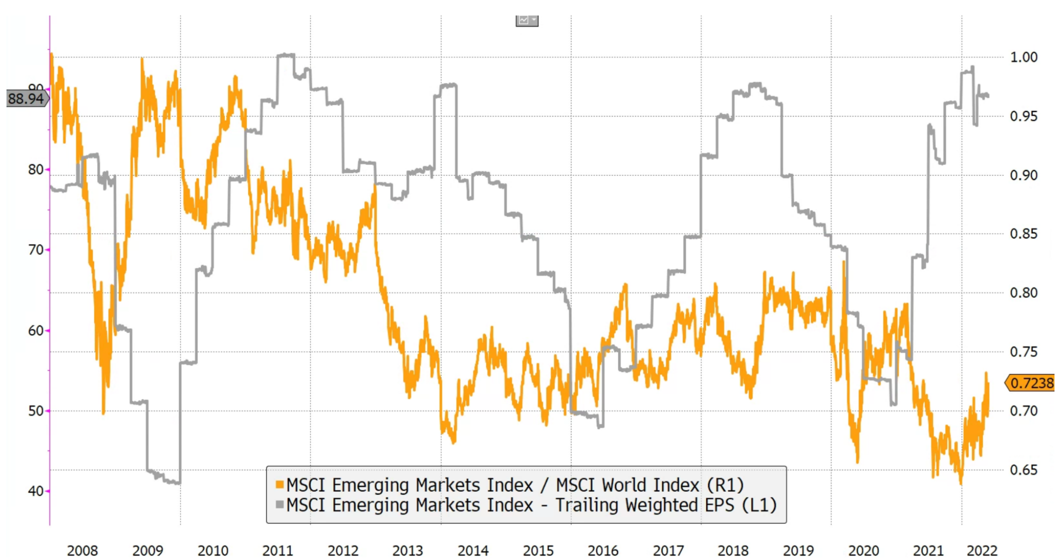
Without the traditional support from the Fed coming out of a tightening (the so-called Fed put), underperformance by emerging markets could be driven into a fifth year despite the bargain prices. With China's difficulties in convincing investors of its appeal, the MSCI China Index of stocks has been among the worst stock markets in the world again this year, and was trading lower than in 2008 relative to the MSCI All Country World Index, which it is part of. Earnings of Chinese companies have increased since last year, as can be seen here.

Underperformance of Chinese Stocks vs All Country World Index

Source: Bloomberg, September 2022

On a forward PE basis, emerging markets stocks have been as cheap or cheaper vs developed market stocks as in the 2008 recession, the 2014 slowdown and the depths of Covid-19, as can be seen in the orange line below.

Undervaluation of EM Stocks (Ratio of Best-estimates PE of EM Stocks / DM Stocks)

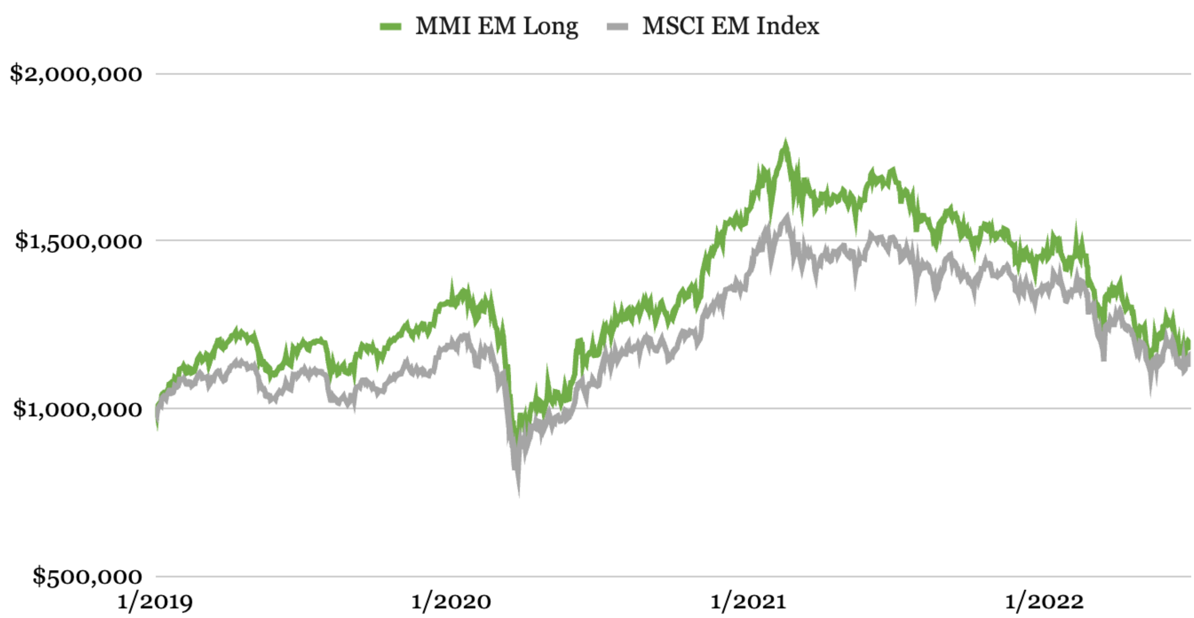


Source: Bloomberg, September 2022

There is always a probability that investor sentiment deteriorates further, but there is also a probability that a catalyst eventually triggers the most powerful and reliable phenomenon in financial markets: mean reversion. Chinese credit stimulus has historically been a driving force behind the performance of emerging market assets. However, China was trying to shift away from its infrastructure-led growth model towards more value-added growth. Under obvious pressure, it has now reverted back to its old playbook with a direct stimulus to its economy, bringing forward $220 billion in bonds issuance to back an infrastructure recovery plan. We think that any concrete positive development on the inflation front which can allow central banks to pause - or even hint at pausing - could give way to a substantial appreciation in emerging markets stock prices.

How we managed our Emerging Markets Equity strategy

Growth of $1M in Mount Murray Investment’s Emerging Markets Equity strategy



Despite the market correction in emerging markets that started in February of 2021, our emerging markets equity strategy has appreciated by 31.36% net of fees since its inception on January 1st, 2019 up to June 30th, 2022 (3.5 years), the passive iShares MSCI EM ETF having produced 21.05% - i.e. we recorded an annualized return of 8.10% net of all fees, adding 2.49% on average per year for our clients vs a passive strategy. Our composite recorded a year-to-date performance as of June 30th down 19.94% (net of fees) vs the MSCI EM Index which had lost 17.63% (no fees).

Comparing ourselves to others is something we try to avoid, but in this challenging beginning of the year we stumbled upon this report on global emerging markets active funds and found that at -1.83% net of fees vs the benchmark YTD in May, our strategy probably fared among the first, as was also the case over the past 12 months.

Top 20 active emerging markets open-ended funds in the US - May 2022

Fund name	Ticker	AUM (US$m)	OPF vs MXEF Index (US$TR, %)				OPF Hit Rate since 2016 (%)	Contribution to YTD'22 OPF		
			L5Y	L3Y	L1Y	YTD'22		Name	OW/UW (%)	CTR (%)
T ROWE PR EMRG MRK DISC-INV	PRIJX US	4,051	-0.3	-2.3	2.4	1.9	42.9	TSMC	-7.02	1.39
ALLSPRING EMRG MRK EQ-A	EMGAX US	4,830	-2.2	-2.5	-8.6	-1.4	28.6	Bilibili	1.47	-1.08
MFS EMERGING MKTS EQUITY-A	MEMAX US	6,511	-3.1	-5.1	-5.6	-1.9	28.6	Sberbank	1.00	-1.11
HRTFRD SCHR EM MRKT EQ-A	SEMVX US	5,824	-0.4	-0.3	-4.3	-2.3	42.9	Novatek	0.43	-1.03
T ROWE PR EMRG MRK STCK-INV	PRMSX US	8,241	-1.9	-4.4	-8.4	-4.6	42.9	Sberbank	0.40	-1.27
JPM LX F-EMERG MKTS OPPOR-AA	JPMLEAA LX	3,437	-0.5	-3.2	-7.2	-4.8	42.9	Lukoil	0.74	-1.95
CALVERT EMERG MRKTS EQTY-A	CVMAX US	3,184	-0.8	-1.9	-7.7	-5.2	42.9	Yandex	0.79	-1.30
FIDELITY SER EMRG MRKT OPP	FEMSX US	25,238	0.2	-0.2	-7.2	-5.3	42.9	TCS Group	0.40	-1.01
BLACKROCK EMERG MRKTS-I	MADCX US	3,940	2.0	0.8	-6.9	-5.7	71.4	Gazprom	0.68	-1.56
BGF EMERGING MARKETS EQ-2	BGEHX US	4,829	0.9	-1.6	-10.2	-6.9	42.9	Sberbank	0.90	-2.63
ABERDEEN EMER MKTS-INST	ABEMX US	3,158	-1.8	-1.9	-7.6	-7.0	42.9	Lukoil	0.74	-1.57
BARON EMERGING MARKETS-INS	BEXIX US	7,115	-1.9	-2.4	-8.3	-7.3	42.9	Novatek	0.56	-1.40
NORDEA 1 EMRG STARS EQ-BPUSD	NEMSBPU LX	4,181	-0.5	0.0	-12.0	-7.6	42.9	ASPEED Tech	2.27	-0.93
FIDELITY EMERGING MARKET	FEMKX US	6,725	3.2	2.9	-4.0	-7.8	57.1	NVIDIA	2.30	-1.09
GLDMN SCHS EM MRKT EQ-A	GEMAX US	3,801	0.2	0.4	-6.6	-7.8	42.9	TCS Group	0.44	-1.07
JPMORGAN F-EMERG MKTS EQ-A	FLEFEMI LX	8,354	0.1	-2.2	-10.7	-8.2	57.1	Epam Systems	1.74	-1.28
INVESCO DEVELOP MRKTS-A	ODMAX US	31,703	-2.7	-6.0	-12.2	-8.4	28.6	Novatek	1.67	-4.22
AMER CENT EMERG MKTS-INV	TWMIX US	3,180	-1.9	-2.5	-8.5	-8.5	42.9	Novatek	0.50	-1.20
JPMORGAN EMERG MRKT EQ-I	JEMSX US	9,150	0.5	-1.8	-11.0	-8.9	57.1	MercadoLibre	2.86	-1.31
HRDNG LVNR INST EM MRKT-INST	HLMEX US	3,762	-4.3	-6.0	-10.8	-10.3	28.6	Novatek	0.76	-1.93

Note: YTD performance as of 22 May 2022 closing. OPF hit rate refers to the % of years the fund outperforms the MSCI EM index since 2016 to year-to-date. Bloomberg

Source: Bloomberg, May 2022

It’s been a volatile period to be certain, with many major macro developments and political events developing at high speed, but we have also seen several opportunities emerge.

The top three performers in our relative value Emerging Markets strategy in H1 were:

- Vale (contributed +0.42% to relative performance): one of Brazil’s largest companies, and a major player in the shipborne iron ore market. The stock has done well following the recovery in commodity prices and Brazil risk;
- Gazprom (contributed +0.41% vs the index by not holding it): the Russian fossil fuels company, largest natural gas provider in Europe, whose shares stopped trading;
- Infosys (contributed +0.28%): the Indian multinational information technology company that provides business consulting, information technology and outsourcing services, which we added in early July given an attractive price and prospective growth.

The bottom three performers in H1 were:

- Lukoil (contributed -1.72%): despite having its BOD officially protesting the imminent invasion of Ukraine, the stock was suspended of trading at the onset of the war;
- Sunny Optical (contributed -1.14%): the Chinese manufacturer of camera sets for smart-phones and cars. We were expecting a weak quarter given the supply problems OEMs are facing in these industries, but their fourth quarter came in below even our dampened expectations. Long-term, we are still fans of the sector and the company;
- Cemex (contributed -0.97%): the Mexican cement manufacturer which has been facing higher energy costs. We are now conservatively decreasing exposure.

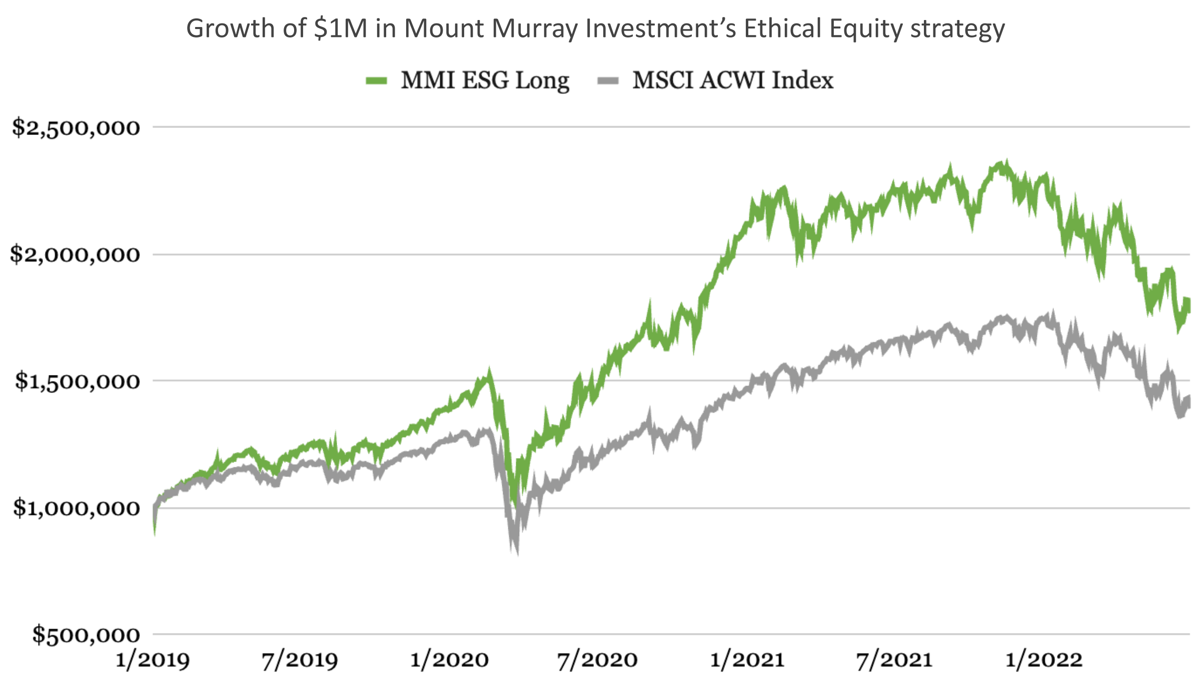
While we already had some exposure to more cyclical sectors in Latin America starting the year, we have been supporting further our exposure in the first quarter to the value factor, which, while still not significant as we remain style agnostic, translated into increased positions in miners and food producers.

We have also been slowly increasing our underweight to China back toward a small overweight to benefit from low valuations on fundamentally sound companies, but we remain prudent regionally as the regulatory environment slowly becomes clearer. While strategically appealing in the longer term, India to us has been fully valued for a certain time, despite a very resilient economy which supported its equity market in addition to strong investor sentiment toward its robust democratic political system and stable business environment. We also took our energy/oil exposure to Saudi Arabia, albeit with a regional underweight and in the country ETF, while we still lack access to local stocks given our size. In April, we obtained enhanced local access to more emerging markets thanks to a new institutional mandate; we therefore initiated long-researched specific positions in India, South Korea and Taiwan.

The global historical underinvestment in commodities extraction production and transformation, capital projects that take years to complete and saw low appetite from corporations under constant threat of investor activism, inflation in costs and low historical returns on investment, had been evident to us even before the war in Ukraine further increased the squeeze on supply. To benefit from this structural situation which will support commodities prices, we have been positioned in such exposures in emerging markets. But, as we remain cautious of further corrections caused by recession fears, we maintain our barbell approach with a majority of quality companies with superior growing earnings, strong free cash flows and low leverage, complemented by those value-type positions in more cyclical, or sometimes smaller names.

We expect sustained heightened short term volatility in emerging markets, as the expectations of negative demand effects from monetary tightening collide with those of a recovering economic momentum.

How we managed our global Ethical Equity strategy

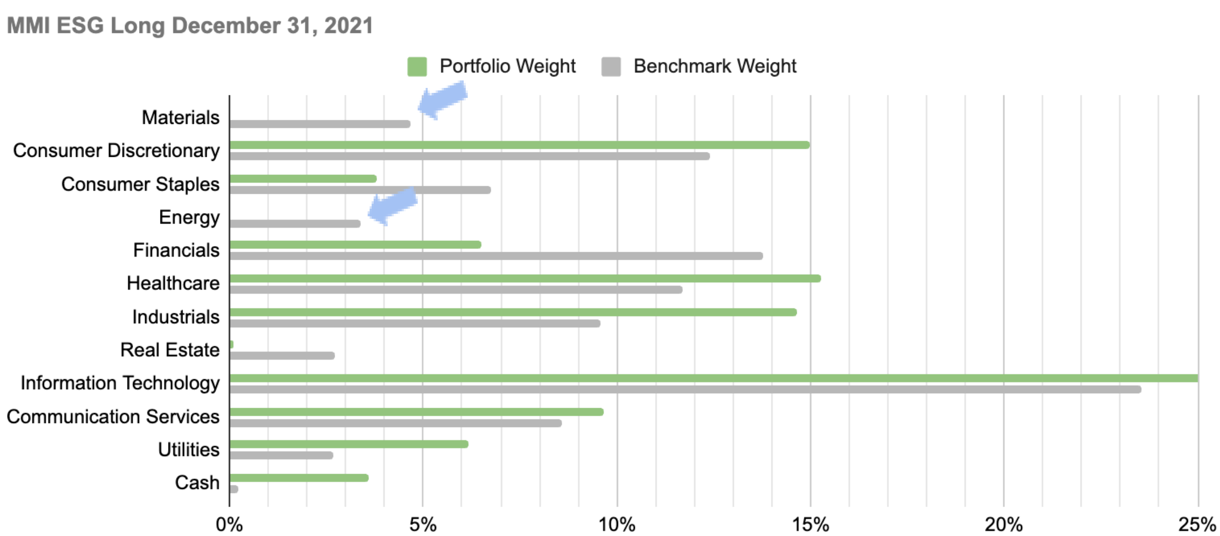


Our global ethical equity strategy has appreciated by a total of 105.18% net of fees since its inception on January 1st, 2019 up to June 30th, 2022 (3.5 years), the passive iShares MSCI ACWI ETF having produced 56.17% - i.e we recorded an annualized return of 22.80% net of all fees, adding 9.22% on average per year for our clients vs a passive strategy. Our composite recorded a year-to-date performance as of June 30th down 22.94% (net of fees) vs the MSCI ACWI Index which had lost 20.18% (no fees).

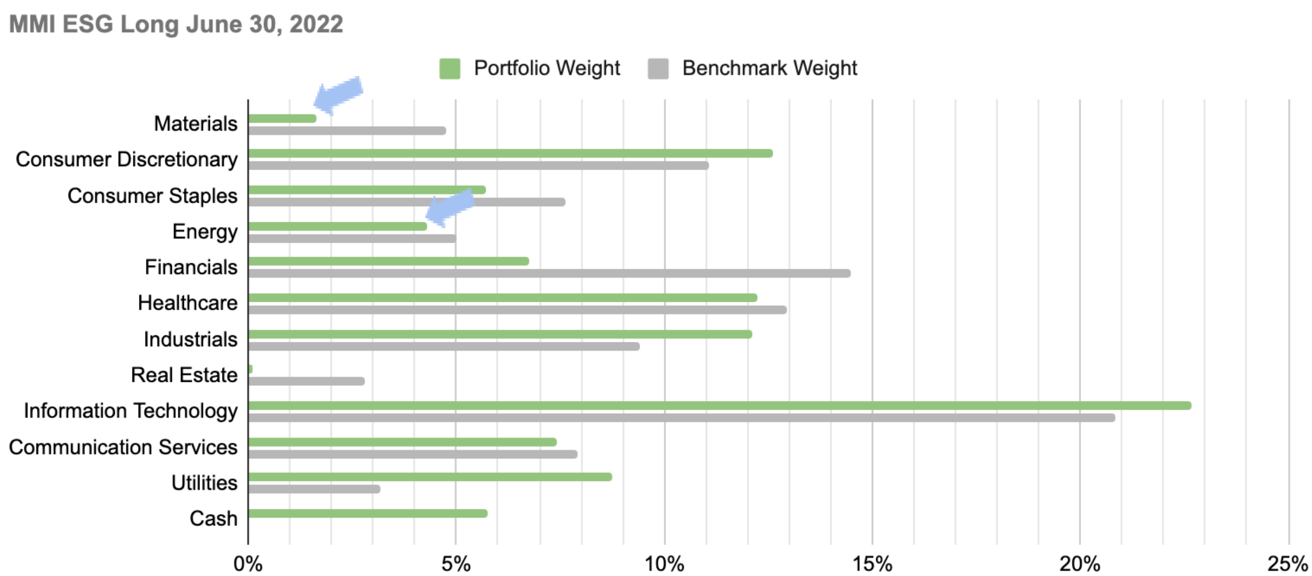
2022 has been the year in which the ESG and sustainable investing approaches have been challenged, with market leadership of the past year squarely in the "dirty" commodities sectors. It pays to analyze the data, however. A study published in May by the European Securities and Markets Authority that looked at 6,528 UCITS funds found that rigorously applied ESG criteria generally significantly improve returns and cut clients' risk over time. It also found that funds focusing on the "Social" aspect in ESG tended to perform best[6]. To us, the risk of not considering ESG seriously in our portfolio companies, from a general business perspective but also a regulatory disclosure perspective, was evident from the very founding of our firm.

As we have written before, our fundamental ESG stock selection process based on choosing companies which provide solutions that have a concrete positive impact on the world, following the United Nations' 17 Sustainable Development Goals ("SDG's"), produced a significant sector gap detrimental to our recent performance relative to the market benchmark. We were simply not exposed to sectors of lesser ESG quality, the ones that outperformed tremendously since last year due to the structural macroeconomic factors mentioned above. However, we have been controlling this risk progressively.

As can be seen below, this was our Ethical Equity strategy sector allocation on December 31st vs on June 30th.



[6] Bloomberg, August 2022



Our work has focused on reducing the relative performance risk of our strategy while remaining faithful to our ethical principles. The war in Ukraine has exacerbated a mismatch of supply and demand in materials and energy sectors and opened up some opportunities for certain companies to contribute positively to the security of democracy. We therefore shifted our focus a little from energy transition to energy security. We have been sifting through those companies' disclosures as well as applying our own machine learning-powered assessment of independent news sources to determine which ones were greenwashing and which ones had accepted the transition to a cleaner future and contributed to it. This comes down to corporate citizenship, and some companies emerged on top. One such company was Norsk Hydro, positioned as a vertically integrated aluminum producer in a sector constrained by Russia's inability to import large quantities of alumina.

The top three performers in our relative value Ethical Equity strategy in H1 were:

- BYD (contributed +0.82% to relative performance): the Chinese electric vehicle and battery manufacturer, in an industry currently supported by the Chinese government to stimulate growth and clean energy transition. The company, developing affordable cars within reach of middle-class Chinese drivers as well as a plug-in product line that includes trucks, forklifts, and buses, has achieved more sales of its new energy cars in the first seven months of this year than in 2020 and 2021 combined, bringing its share of China's electric vehicle market to 24.7% in the first half of 2022;
- Becton Dickinson (contributed +0.42%): the global medical technology company, engaged in various cutting-edge solutions in medication delivery and management with the accretive acquisition of a major business in automated pharmacy, but also in diagnostics and in medical intervention, benefited from better than anticipated pricing power, easing covid restrictions and solid hospitalization recovery in the US and Europe, and should also make the most of easing lockdowns in China;
- Meta Platforms (formerly Facebook, +0.38% by not holding it): has been under fire from regulators and the public alike for its unsafe use of consumer data as well as manipulative algorithms, and has invested significantly in a new metaverse platform that has so far left investors cold.

The bottom three performers in H1 were:

- Infineon Technologies (contributed -1.11%): the German semiconductor manufacturer which has grown at more than a 10% compounded annual growth rate since 1999, thereby consistently outperforming not only the broad market but also the semiconductor industry, but has been affected by the increase in its discount rate in the generalized tech sector rout. Infineon is poised to benefit from secular tailwinds such as the electrification of mobility, renewable energy transition, and increased global interest for strong security systems, and is reiterating sustained demand for its products and a large order backlog;
- Netflix (contributed -1.09%): saw its normally strong subscriber growth come to a halt (in part due to 700k users going offline in Russia) and is now focused on monetizing its platform further through differently priced segments, using the help of Microsoft for a planned advertising add-on (ad-supported tier for a lower priced subscription), using paid sharing to avoid access theft, as well as adopting costs discipline with regards to its production of original content;
- Schneider Electric (contributed -0.95%): the French multinational company specializing in digital automation and energy management in homes, buildings, data centers, infrastructure and industries, has continued to offer solid growth guidance and good earnings, but investors seemed to momentarily tire of the automation/electrification theme at the same time as it was struggling with poor rail service and lack of equipment availability as shippers have selectively converted intermodal to truck, a situation which should be improved at some point.

Tectonic shifts continue in the world of ESG, as the onus is on companies to properly disclose their risks and progress. Last March, the SEC announced standardized climate-related disclosure requirements for public companies, with additional climate risk disclosures. The European Corporate Sustainability Reporting Directive was adapted to publish regular standardized reports on companies' environmental and social impact activities from the fiscal year 2023 onwards. ESG issues are moving from a mainly voluntary disclosure-oriented dimension to a regulatory one with significant implications for how ESG information is collected, verified, and acted upon within an organization. The newly formed International Sustainability Standards Board seeks to define standards for investors (it comes from an association of several ESG disclosures initiatives, including the Sustainability Accounting Standards Board, or SASB). We have been following SASB guidelines to analyze companies' ESG impact since our inception and while our use of independent news sources to verify the accuracy of company disclosures remains crucial, we welcome those developments to standardize the industry and hold companies accountable at a higher level.

Green infrastructure spending has had a resurgence since the pandemic. Despite recent announcements by the Biden administration, China remains the biggest spender when combining public and private investments aimed at accelerating the energy transition. Europe's Green Deal does not come close either. Last year, Bloomberg NEF estimated that China spent $297.5 billion on the energy transition, while EU member states devoted $155.7 billion and the US $119.7 billion. China is also pushing its companies to adopt new guidelines on ESG reporting. Unfortunately, all those global efforts still fall short of meeting the Paris Agreement objectives[7]. The world needs to scale up investment further, and it falls to these three largest emitters to lead the way. Clean energy and conservation are investment themes that will keep increasing in importance as we suffer through more climate-induced disruptions, with immeasurable ramifications for populations and businesses alike. This is the steepest challenge of our lifetimes.

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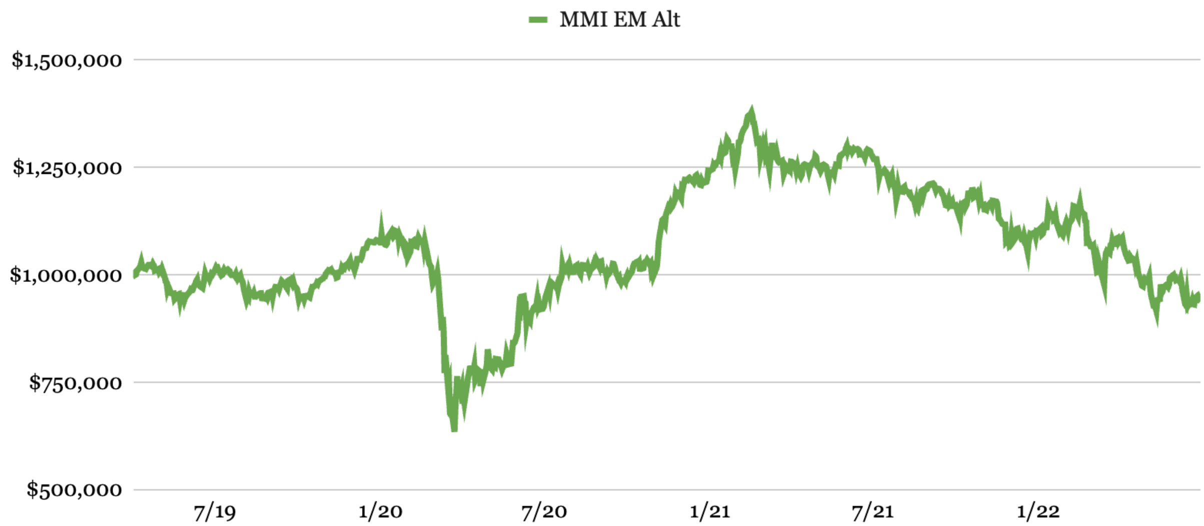
[7] Avoid excessive global warming by slashing emissions at least 50% from 2005 levels by 2030.

How we managed our Alternative Emerging Markets strategy

Growth of $1M in Mount Murray Investment's Alternative Emerging Markets Equity strategy



Launched on April 1st, 2019, our alternative emerging markets strategy composite recorded a year-to-date performance as of June 30th down 14.81% net of fees vs the "risk-free" Canada 5-year bond yield plus a 3% premium which had gained 2.69%. We had not anticipated the length of the Chinese lockdowns, which cemented the effect of the fear of the sudden and opaque regulatory overhaul of several industries investors had felt since the winter of 2021. However, we see Beijing determined to support the Chinese consumer going forward, which should end up gaining traction in the economy.

Starting the year, we had been short 50% of our risk-adjusted exposure to Russia, which we covered with a profit on March 3rd after the invasion of Ukraine. We also had sold some out-of-the-money put options during the 30+ VXEM period of Thanksgiving 2021 (Omicron wave) with expirations in March and April 2022, but although some would have expired out-of-the-money with a profit of to us, we deemed the risk to hold them as being asymmetrical after the invasion and we bought them back when volatility abated a little over the next few days. As with most market developments, the absence of worse negative surprises combined with the passage of time helped consolidate investor confidence and bring volatility lower. We remain aware of the volatility landscape, evaluating macro risks on the horizon to determine opportunities in put options with a 6 to 9 months maturity, the most sought-after period by investors. Finally, we had increased our regional short exposures through country ETFs up to 50% across all regions, with the objective to increase them further should emerging markets go through a relief rally before year end. If this happens strongly enough and without sufficient economic data points to conclude that central banks have effectively tamed inflation, we would become more defensive and hedge further for now.

Our top three contributors to the strategy's absolute return in H1 were our systematic country shorts:

- iShares MSCI Brazil ETF (contributed +2.21%)
- iShares MSCI Russia ETF (contributed +1.93%)
- iShares MSCI India ETF (contributed +1.02%)

Our bottom three performers were derived from our long-only strategy positions, risk-weighted, and led by a Russian stock, as described above:

- Lukoil (contributed -2.96%): as described above;
- Taiwan Semiconductor (contributed -2.25%): TSMC, the world's largest foundry of semiconductors and its most sophisticated as well, has been our largest position in the strategy given its normally low volatility, its stable earnings and overall financial quality. The company has had sustained profitability since the end of the pandemic, with a growing order book from several reliable clients. Second-quarter earnings increased 76% from a year earlier and 17% from the previous quarter, generating one of the highest net margins in the industry. The internet of things, high performance computing, 5G, and the automotive industry will drive TSMC's growth over the next five years, which could achieve 15% annually. While the China/Taiwan/US security falling out has not helped the stock, we think its correction is mainly attributable to its hard comparables and overall investor exhaustion in the chipmakers sector in the face of rising discount rates, not unlike Infineon in our Ethical Equity strategy;
- Samsung Electronics (contributed -1.93%): similar to TSMC, Samsung delivered solid results and reiterated its confidence in its earnings guidance based on a tight market for its products and healthy demand. It may also have been affected by a general prudence toward high end electronic consumer products given the possibility of a consumer recession in large developed countries and the one unfolding in China. The stock, like TSMC, stands to benefit significantly from a positive change in this market perspective.

Winter is coming

Markets lately have been expressing the view of a recession with weakening commodities-exposed sectors, pricier defensive sectors such as utilities, consumer staples and healthcare, and weak consumer discretionary stocks, combined with the negative impact of rising interest rates on the actualized value of future free cash flows of growth companies, particularly in highly valued technology industries. Banks have been supported by a steepening yield curve while loss provisioning has affected their prospects. This has been evident in emerging markets' overall performance as most of them are rightly or wrongly perceived to be more sensitive to global growth hiccups.

On the other hand, the increasingly less popular positioning, for which we saw a glimpse of hope this summer, is that for a soft landing of the global economy and an economic recovery in China, helped by global momentum in corporate restocking and investment, sustained consumer spending in services buoyed by durable job gains, longer term government stimulus in infrastructure spending, a final easing of covid restrictions, and positive signs in the fight against inflation and the path of interest rates. In this context, technology stocks would probably roar back, accompanied by consumer discretionary and commodities producers and distributors, and also by emerging markets, while expensive, defensive sectors would be left behind: the opposite of what we have seen cumulatively in 2022. The ideal outcome of interest rate hikes is a modest cooling of consumer demand, with no major effect on supply, leaving housing starts, auto production and energy investment still growing, with other commodity prices still high enough to support investment that has stalled out this past decade. More production, more investment and more activity is the ultimate solution to the inflationary pressures we face. Although deemed increasingly less probable by the consensus, this is *still* the higher probability scenario for us given the strong economic momentum.

However, there is another darker scenario which investors should be prepared for: the dreaded spiral of stagflation where commodities prices fail to stabilize, the job market remains tight at first but finally falters as consumers increasingly retrench, faced with ever rising interest rates that central banks desperately hike to control inflation expectations. This scenario assumes insurmountable debt burdens (which we don't see now). Facing further multiple contraction, stocks would rely only on the resilience of earnings in the difficult context, with brutal market forces exacting their justice over an extended period.

While we are not expecting the first scenario of a deep recession warranting overly expensive defensive positioning, we are mindful of it and also of the rising probability of a stagflationary environment, and we maintain positions that could contribute should the global economy slide in those directions. In the 1970s, after many false hopes and false starts, equity markets went through a decade of disappointments culminating in cumulative negative returns, except in the rare commodities-led sectors.

Fund flows out of emerging markets generally continue to be a challenge as the global risk-off sentiment goes viral. We understand some investors may not be willing to chase returns far away without expectations of monetary or fiscal support at the first sign of trouble. However, this is also the reason we are here. Investors will inevitably return to risk when the dust settles on this period of high inflation. In the meantime, we are happy to buy what is discounted as long as fundamentals are solid and macro factors can provide a reliable tailwind.

Beijing realizes the downside of its zero-tolerance Covid policy, even though opposition to it has been silenced so far. China's regulatory risk has peaked and it is not the start of a wholesale nationalization. US punitive measures targeting Chinese companies complicate their growth outlook and stock performance, but collectively the damage is not staggering. We are hopeful that the People's Party national congress in October will trigger positive market developments, should President Xi be reelected or not. The best entry point for stocks is when growth is weak, stocks are cheap, investors are bearish, and policymakers are turning stimulative. All these elements are combined in the Chinese equity market.

With significant downside risks in mind, our baseline scenario assumes the global expansion to slow but continue with the help of Asia lifted by Chinese stimuli, fading COVID drags on supply chains, stabilization of energy prices despite their remaining significantly higher than before, alleviating the low base effect of price increases, corporate balance sheets bending but not breaking thanks to limited leverage and sufficient profitability, and a moderation in employment as a proportion of the workforce in developed countries. Our outlook also assumes that central bankers have not completely abandoned the expansion and would become more sensitive to growth disappointments once the Fed key rate passes 4%. The mix and timing of those developments make this a very fluid and uncertain situation, as illustrated by huge daily price swings. We therefore maintain a balanced approach with a degree of risk allocation to positions that we would consider as positive elements in the other two scenarios mentioned above.

Best regards,
Mount Murray Investment