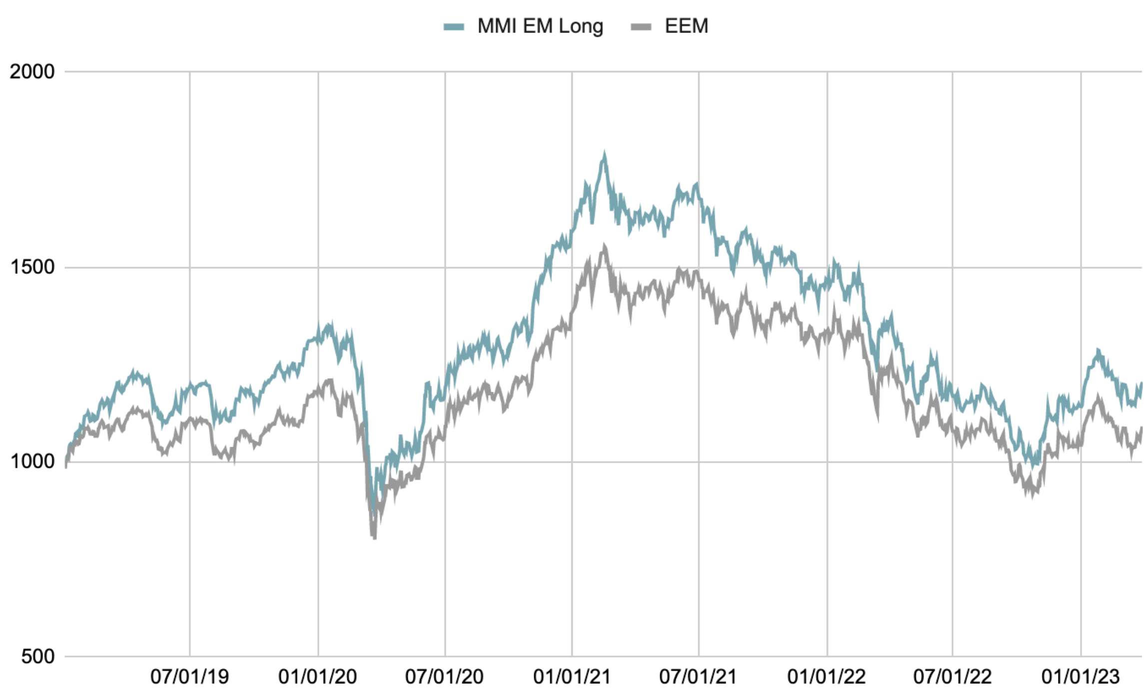
Montréal, May 24th, 2023

Mount Murray Investment was founded by experienced portfolio managers who previously worked at a large Canadian pension fund. Our firm is employee-owned and serves institutional investors in Canada and the United States, as well as private clients in Canada.

Our macro framework drives our portfolio construction and our in-depth research determines portfolio positions. We assess a country's economics, political environment, long term valuations and investor sentiment. Key fundamental factors favored by our research team are strong earnings growth and free cash flow generation, with low leverage. We perform an ESG assessment of all portfolio companies, based on SASB criteria and our sustainable objectives, which are derived from the UN SDGs. Our concentrated portfolios are constantly monitored on various risk exposures.

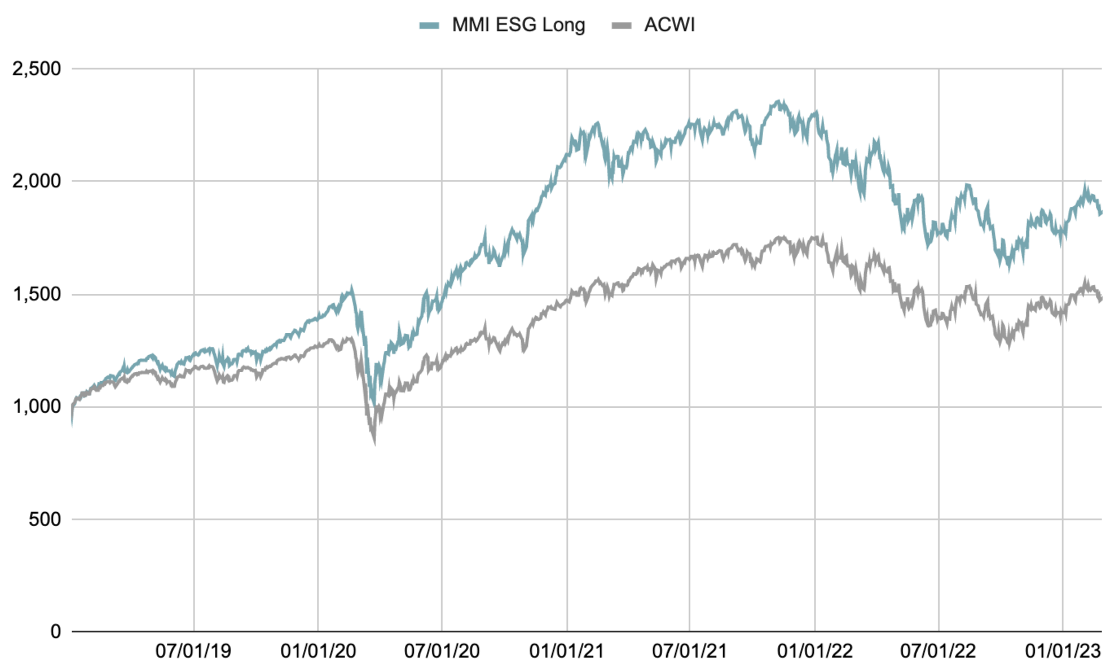
Mount Murray Investment's Emerging Markets Equity strategy offers a diversified global emerging markets equity exposure. Our approach combines fundamental bottom-up research integrated in a top down macro framework. The strategy composite has achieved an annualized alpha of 2.17% net of fees over the performance of the iShares Emerging Markets ETF (EEM) since its inception (on January 1st, 2019).

Mount Murray Investment Emerging Markets Equity strategy



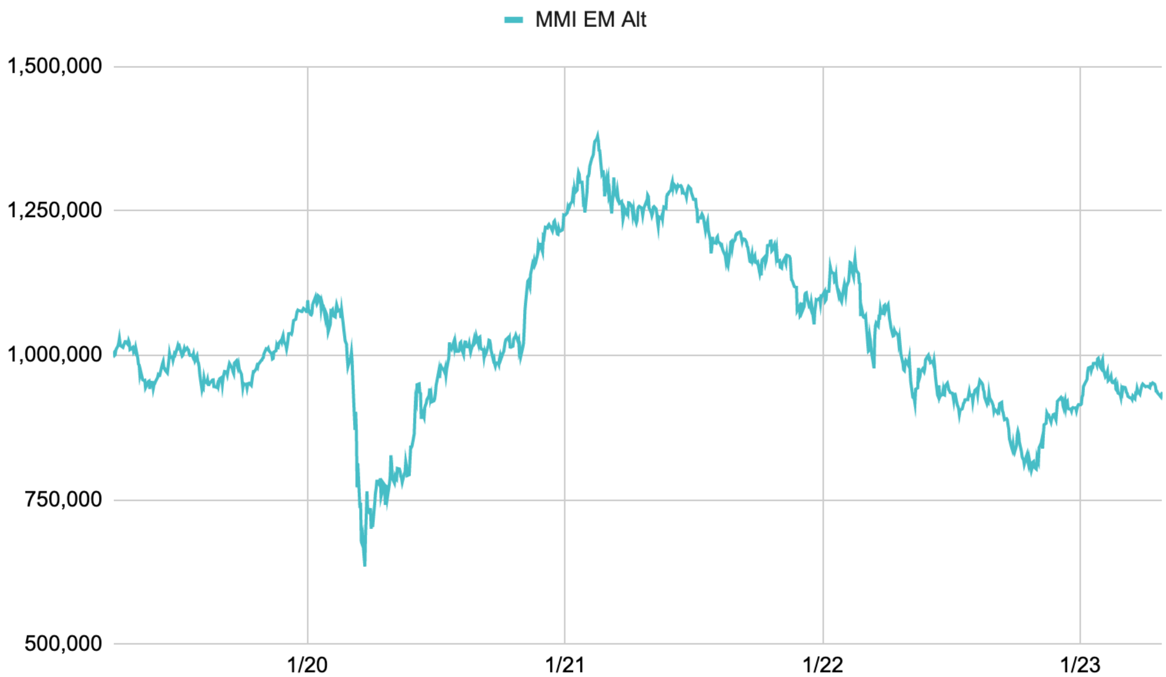
Mount Murray Investment's Ethical Equity strategy offers a participation in the growth of best-in-class companies toward achieving the UN SDGs, while presenting a potential for significant capital appreciation. The strategy composite has achieved an annualized alpha of 4.70% net of fees over the performance of the iShares All Country World Index ETF (ACWI) since its inception (on January 1st, 2019).

Mount Murray Investment Ethical Equity strategy



Mount Murray Investment's Alternative strategy offers a diversified emerging markets equity exposure with reduced volatility by hedging with tactical systematic equity short positions and an options overlay. The strategy composite has achieved an annualized absolute return of -1.23% net of fees since its inception (on April 1st, 2019).

Mount Murray Investment Alternative strategy



Fed policy

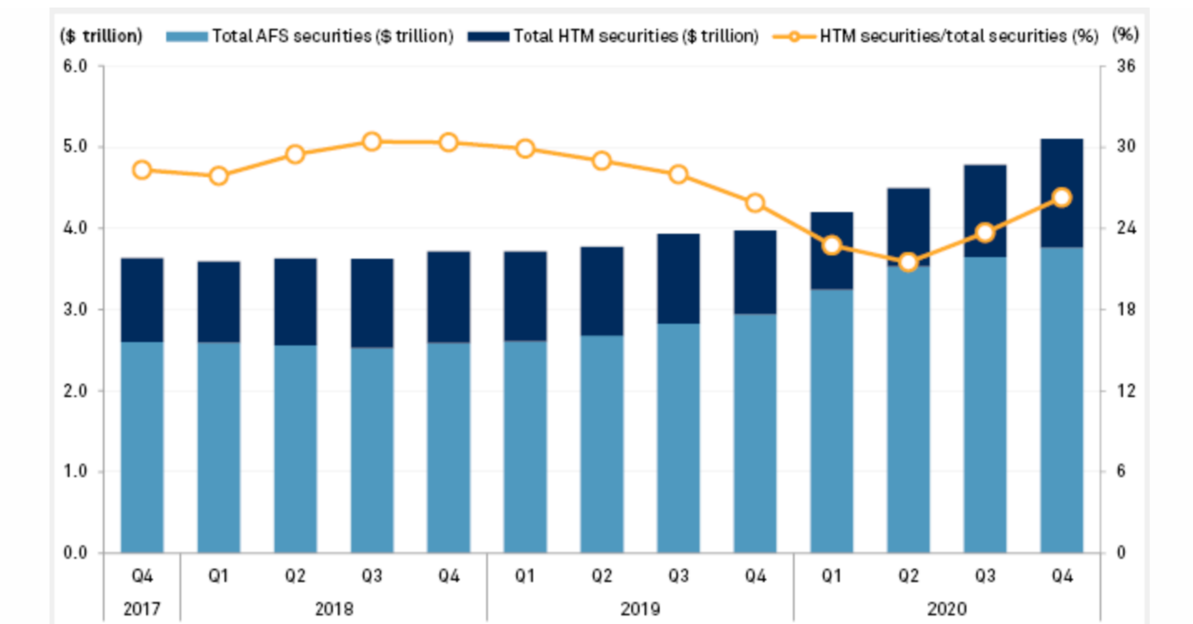
If we were to use a single phrase to describe the focus so far this year it would be "Fed policy". Will they have to continue raising, will they pause for a prolonged period, will they be able to fix the cracks appearing in the regional banks and the rest of the system?

The lack of traditional correlations among different assets is causing confusion and making it difficult to predict the economic path and Federal Reserve policy. The current state of the financial sector is creating uncertainty, leading investors to seek yield-bearing investments such as money market funds. There is a growing gap between the best and worst-performing sectors in equities, with more dispersion among individual stocks too. Despite the risks looming over equities, dispersion is likely to increase further, favoring companies with strong balance sheets and solid earnings.

The previous quarter saw the return of an old ghost with the sudden loss of confidence from American depositors in their regional banks. We have been following the banking situation closely. It is often said that the Fed's role is to remove the punch bowl just as the party is getting started. They have certainly been trying to do that, but the economy has been extremely resilient so far. Jobs growth has been above expectations and the "most anticipated recession", which would have to come from a rise in unemployment, has yet to appear, despite the US yield curve remaining extremely inverted and a burgeoning credit crunch. There is a clear mismatch between what the bond market is pricing in and what the equity market is pricing in.

Interest rates go up, bonds go down. It’s axiomatic. We get taught that in “foundation of finance” courses at university, immediately prior to the introduction of “duration” i.e. the rate at which bond prices change with a change in interest rates. The sharp rise in rates and the yield curve inversion is what lies behind the collapse of Silicon Valley Bank and the stresses on US regional banks, although some good old-fashioned incompetence played its part too. Using short-dated deposits to buy longer-dated bonds to boost margins is far more common in the US than elsewhere. Its effects were being written about extensively before Silicon Valley Bank ran into trouble – the chart below is from a Standard and Poors’ report from March 2021. The Federal Reserve reported that there were $620 Billion in potential losses from banks' held-to-maturity (HTM) bonds at the end of 2022, as the market value of those bonds fell with interest rates. We know that the Bank of England raised the issue with the Fed in early January as it worried about the UK subsidiaries of US banks that were suffering from this mismatch.

Held-to-maturities securities trends at US banks



Source: Standard and Poors, March 2021

Silicon Valley Bank failed to exercise proper risk management: it didn’t hedge its interest rate risk and was over-concentrated in the tech sector in both deposits and clients. But this fallout from certain large banks means that US credit conditions will tighten as other banks reduce available credit. And there will be more bank failures. The return to normal bad loans provisions levels was to be expected after pandemic-era government stimulus programs had kept consumer defaults artificially low. But US banks have set aside additional reserves for bad consumer loans due to a growing number of consumers struggling to keep up with payments, despite bank executives downplaying fears of a crisis. Mortgage payments for first time buyers have doubled, in the US and abroad. There are some corners of the market where no one seems all that concerned. Big banks have benefited from worried customers leaving their smaller counterparts, and hedge funds are also notching wins. The biggest new funds are raising money at levels not seen since before the start of the pandemic. So at least they have something to cheer about.

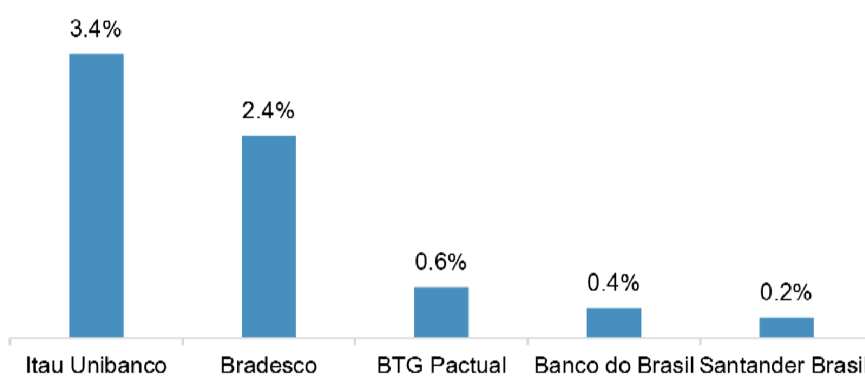
However, the US economy is like an aircraft carrier - it doesn't stop on a dime. If growth keeps slowing, that long-predicted recession might finally come to pass. The 20+ years tailwinds in many sectors that came from a constant refinancing of debt at ever decreasing interest rates have turned. This easy financing era will not happen again any time soon. The number of unicorns had grown exponentially over the past decade, with record levels of capital availability driving their rise, but the market has taken a decidedly different turn. Tech entrepreneurs and venture capitalists have seen the number of exit transactions shrink dramatically, with lower valuations. And more trouble could be on the horizon, with capital demand far outstripping supply and a difficult regulatory environment making acquisition prospects more difficult. Commercial real estate refinancing problems are not just induced by the work-from-home phenomenon. Purchases of brand new EVs and iPhones are under pressure too. Those could all be the early signs of a recession.

Emerging markets

The uncertainty created by US regional Banks and cheap valuations abroad are pushing US investors to diversify their portfolios more widely, especially since so much of the US market is made up of so-called "long duration" tech stocks that don't normally fare well in a higher interest rate environment. If inflation and interest rate expectations are peaking, this should start to favor local emerging markets currencies over the USD, usually a key factor for emerging markets outperformance.

It is worth noting that during and after the 2008 global financial crisis, emerging markets banks did much better than those in developed markets. The recent banking anxiety originated within the developed markets banking system and we think that emerging markets offer a better value that they have been given credit for. Interest rates in emerging markets have tended to be higher, and bond durations shorter than in the US, so there is less pressure to take on additional risk for the same returns, and any HTM bonds will mature sooner. The second chart shows the equivalent losses in Brazil.

HTM embedded losses as % of equity at Brazilian banks



Source: J.P. Morgan, March 2023

The equivalent potential losses in Brazil and other Latin American countries' banks are 5 to 6 times lower. This information is available in detail for the whole system; nothing is hiding undetected in dark corners. This is because most emerging markets have been through this before, so the banks that remain are the true survivors. With the levels of potential losses much lower, if they were all realized, the banks would certainly take painful write-offs, but their capital would remain above the Basel III minima.

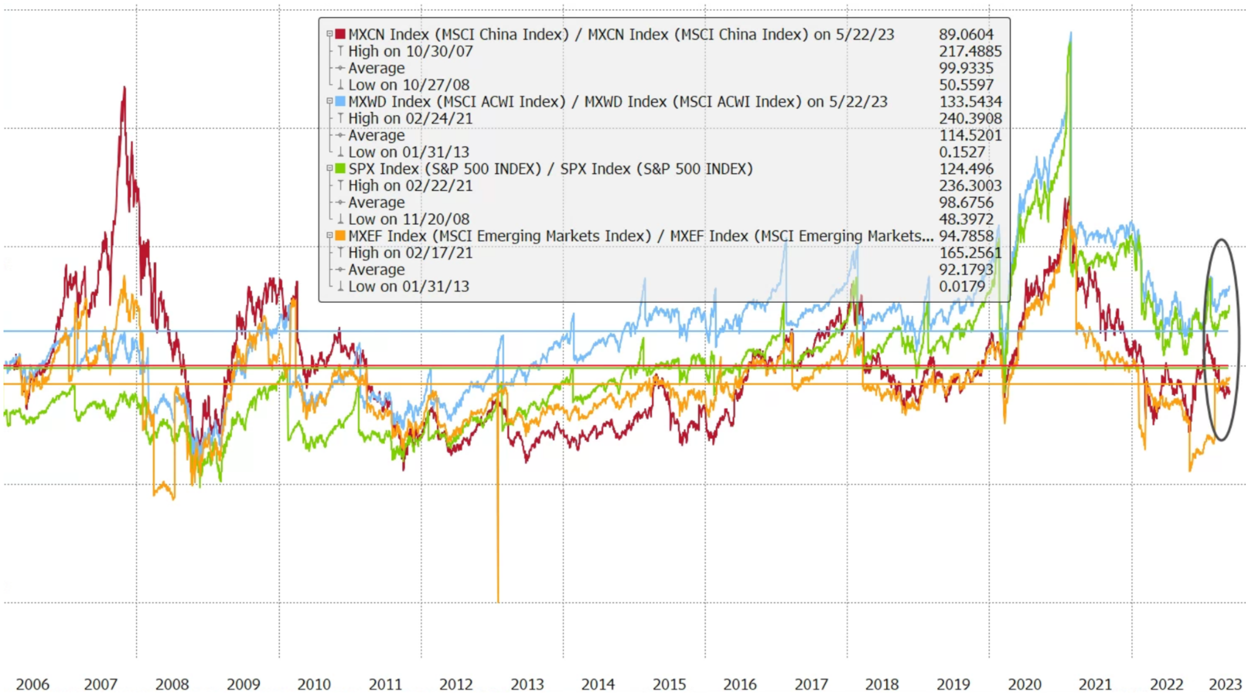
We have kept away from banks in Poland and Turkey precisely because we felt the regional tail risk was underestimated. We also waited a long time to invest in Chinese banks because we didn't think their prices adequately reflected the risks to the property sector, which has been a strong focus of the Chinese government and has finally shown credible signs of stabilization. In the other EM regions, we chose well diversified banks with strong balance sheets and a history of navigating through the various crises. Those banks usually have been survivors for a long time. Obviously, times change, and management teams change, but we saw most of our banks increasing provisioning preemptively during the pandemic and keeping this conservative stance.

In addition, while they are obviously subject to a potential global financial crisis, emerging markets have known varied interest rates environments and macro backdrops. The fiscal situation in all of our invested countries is relatively sound, with foreign currency reserves for the most part higher than 40% of their foreign currency debt (mainly in USD), while some larger countries are at more than 100%. In all of our invested countries, the one with the lowest reading in that regard is Mexico, but it currently benefits from certain positive economic factors such as a healthy consumer and the sustained nearshoring of US production chains in the North, which attracts massive investments. While warning of "sticky" global inflation, the IMF is also forecasting that China and India will both show strong GDP growth this year.

Our main regional allocations are in China, India, Taiwan, South Korea, Mexico, Brazil. We can summarize our smaller positions in the Latam countries here.

- The situation in China is one of low inflation and an intended fiscal stimulus on consumption, while there has been a prolonged restructuring of the real estate sector, which appears to have stabilized. It's a very different situation than in Europe and the US in terms of financial conditions. The recovery in China is reminding many investors that there is more than one global growth engine.
    - Despite the positive outlook, Chinese policy has been uncertain and volatile in recent years, and any potential negative surprises should be monitored closely.
    - Investor confidence in Chinese stocks has been low, despite improving economic fundamentals and forecasts for strong earnings growth. The MSCI China Index is underperforming other global benchmarks, with investors selling off tech shares and opting for recession-proof trades such as buying dividend payers. Analysts cite tensions with the US, skepticism about the recovery in consumption, and unease over the Chinese government's crackdown on the nation's most profitable companies as reasons for the market's negative bias. Despite low valuations and predicted earnings growth, investors are hesitant to commit to Chinese stocks, with some Asia funds cutting their exposure.
    - As can be seen in the next graph, Chinese equity valuations are heavily discounted and under their long term mean (the red line/MSCI China is next to the green line/S&P 500), which is not the case for developed markets. The Chinese Hang Seng Index hit 1997 levels to trade at a P/E of 7 a few months ago and has barely recovered, an indication of how extreme this sell-off has been, for a country which may one day surpass the US in GDP, with four times its population.

Price / Estimated (BEST) EBIT vs long term average



Source: Bloomberg, May 2023

- We view the recent massive correction in Chinese equities as a storm that will pass. We think that the market’s negative bias will ease as investors run out of reasons to avoid holding Chinese stocks. Overall, the outlook for China's post-Covid recovery remains positive, with clear signs of improvement in key economic indicators such as consumption, private sector investment, housing activity, and exports. The expectation is for a strong recovery accompanied by an accommodative policy stance, which is creating a sweet spot for Chinese stocks. We look to the long term interest of several companies and countries to keep on doing business in and with China. We now live in a multipolar world where allegiances are less important than the constant need to progress economically.
- While metals and mining, along with the infrastructure and construction sectors, had some of the wind taken out of their sails given an economic stimulus much more prudent than previous ones, we saw four straight months of growth in private sector activity as services maintained momentum following the removal of strict pandemic measures. China’s manufacturing activity unexpectedly contracted in April, a sign the economic recovery remains patchy and may be struggling to sustain momentum, but overall China's PMI numbers are in expansion territory and suggest that the country's post-Covid boom is underway. Advanced manufacturing remains the bright spot for opportunities (staying clear of any company that may be targeted by US sanctions).
- Regarding national security and supply chain security, any changes to an established foreign company's manufacturing footprint in China are likely to be incremental rather than sweeping due to the complex interconnections that have been built up over the years. “Friend-shoring” investments are expected to boost several peripheral economies

straddling the Pacific. This also creates opportunities in the region: for instance, for equipment manufacturers. Also, large EM nations including South Korea, Brazil, Malaysia and Thailand count China as their top trading partner.

- India keeps on borrowing and incurring deficits, but it's also growing. GDP growth is widely expected at more than 5% again this year. The Modi government faces constant political challenges but remains stable. Inflation has been contained, although at a level of approximately 5%, not unlike several episodes in past decades. In addition to a pro-growth long term fiscal plan, India is also strongly benefitting from re-shoring of Western supply chains.
    - Valuations in India have fallen relative to other emerging markets, so it appears less expensive than previously. A domestically driven economy which shows low correlations with either China or the US makes India more attractive to us than a year ago.
    - Big Tech companies are excited about the potential of India's large, educated, and English-speaking population as a market, particularly with strained relations with China. However, India's infrastructure remains a challenge for foreign investors, and the country needs to make it easier to bring in and take out money. India's potential as a market for Big Tech is promising but also contingent on infrastructure improvements.
    - Regarding banking sector exposures, we invest in one Indian bank which has a strong retail exposure (residential mortgages), unrelated to the recent weakness in the US and Europe.
- In Taiwan, inflation has been subdued at 2%. The political tensions with China have been keeping a lid on equity prices. Our stocks are major global exporters with significant capital and have had limited exposure to the tech funding crisis so far. Hon Hai Precision Industry, Apple's largest supplier, has been mentioned in the news: it had no direct exposure to Silicon Valley Bank, only through some of the funds it invests in that had “around” $100 million of exposure; they don’t break that as total funds exposure or a share of the funds exposure, but they expect to be made whole by the US government. Our three Taiwanese tech companies have negative Net Debt to Equity ratios.
- In South Korea, inflation has been coming down under 4% as it was affected by the depreciating currency. We have been prudent and underweight in the region, and focused on large exporting companies, similar to those in Taiwan. Meanwhile, South Korea is pushing through further reforms to corporate governance that could help reduce the Korean discount. Samsung is cutting back on memory chip production to boost global prices and margins, which should help improve sentiment overall.
- In Brazil, the central bank has managed to bring inflation down significantly as the CPI is now under 5% from a peak of over 12%. The new Lula government has also delivered a fiscal discipline framework.
- Latam countries face populist movements, but because their macro backdrop remains benign, we don't expect a financial crisis to be emanating from them. For the large part, inflation has been restrained thanks to early monetary tightening, which started approximately one year before the Fed's. Also, their economies are supported by strong commodity prices and their banks are well capitalized: coming out of a year of record profits, with conservative non-performing loan provisions despite their recent tailwinds.

In our non-financial companies, one of the reasons we look at leverage as one of our core three fundamental factors is in case credit markets freeze up and they have problems rolling over their debts. We focus on realistic payment schedules.

Top 3 contributors to active performance in Q1:

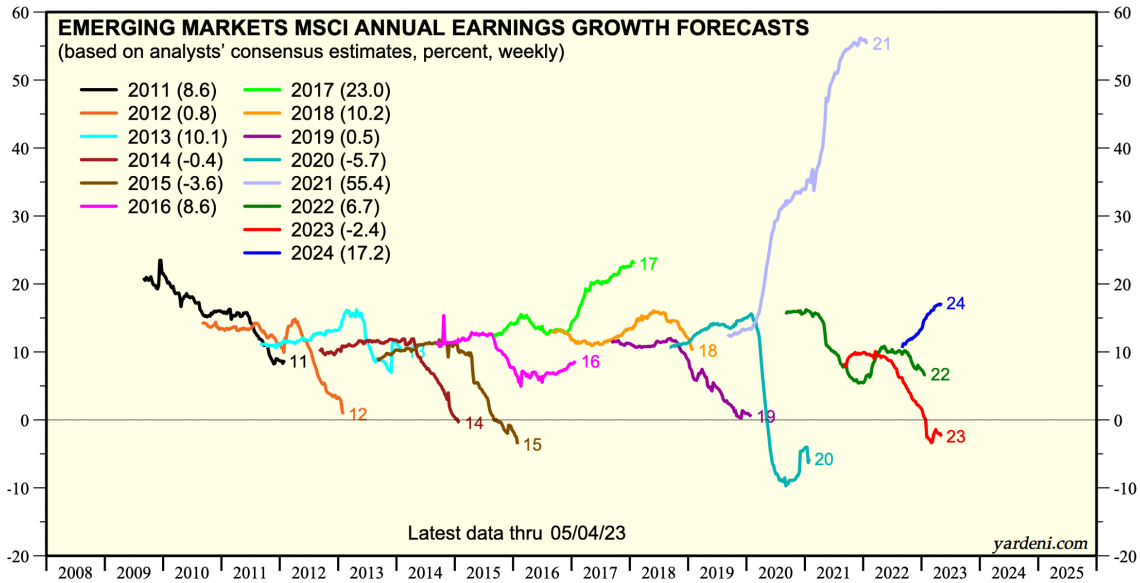
- Taiwan Semiconductor Manufacturing Co Ltd, the world's most important contract chip manufacturer, was oversold when tensions between China and the US boiled up last summer, with valuations reaching near record lows; as those tensions calm down and China reopens, it should be a major beneficiary
- America Movil SAB de CV, Latin America's major telecoms company, went through a beneficial restructuring and simplification of its shareholding structure in the quarter
- China Petroleum & Chemical Corp is a beneficiary of China's reopening, but had lagged some other more depressed names in the initial rally; it is also a beneficiary of President Xi's focus on making state companies more businesses-focused

Bottom 3 contributors to active performance in Q1:

- Hangzhou Tigermed Consulting Co Ltd is one of China's major contract research organisations; it rallied strongly after China reopened and gave some of that back over the quarter; the underlying business remains sound
- China Mengniu Dairy Co Ltd is one of China's major dairy companies; earnings for the fourth quarter were lower than expected and we will continue to monitor earnings expectations
- China Merchants Bank Co Ltd is China's most successful and best quality private sector bank; despite its strengths, it was pulled down in sympathy with the US banks

Notwithstanding the short term trajectory of the global economy, there are some positive economic dynamics playing out. For example, positive activity in the Northern Mexican economy has resulted from nearshoring of US supply chains mainly from Chinese and Taiwanese locations. The region has seen a pick up in commercial real estate development and related services, which should be sustained over several years. Also, minerals such as copper and lithium are necessary for the massive electrification and generation of global energy, and we see some experienced Latam miners, along with their equipment and service providers, well positioned for this supercycle. Lastly, the reconstruction of Ukraine, when it does take place, will involve giant investments which will likely be made through Poland and Turkey.

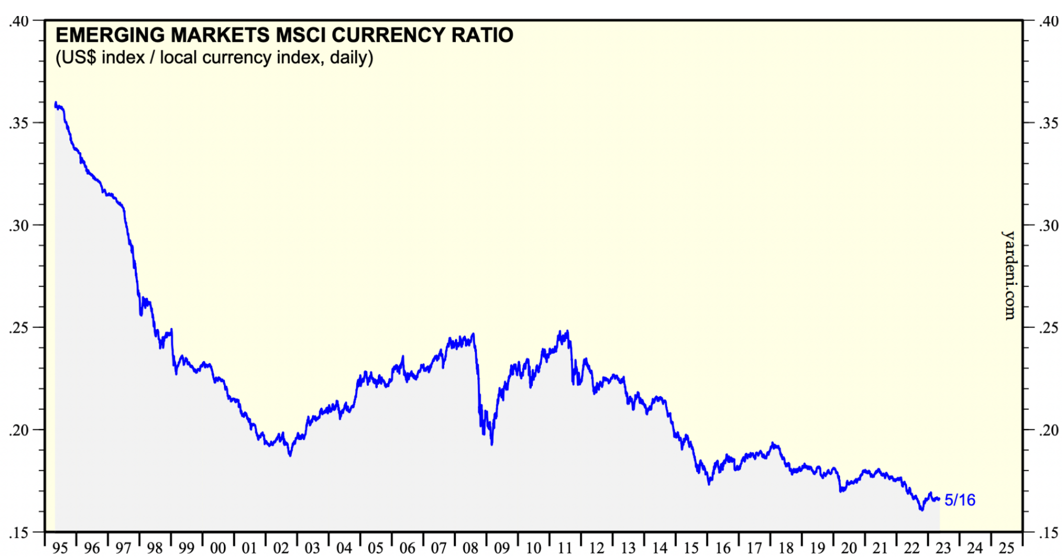
Emerging markets earnings growth forecasts



Source: Yardeni Research, May 2023

We remain constructive on emerging markets for the remainder of the year and into the next. The uncertainty created by US regional banks and cheap valuations abroad are pushing US investors to diversify their portfolios more widely, especially since so much of the US market is made up of so called "long duration" tech stocks that don't fare well in a higher interest rate environment, which we expect for a certain period. Also, if inflation expectation and interest rate expectations are peaking, this should start to favour local EM currencies over the USD, usually a key factor for emerging markets outperformance. In a flight to safety, the US dollar recently reached a level of relative strength not seen since 2001, as shown in the next graph.

US dollar vs other currencies

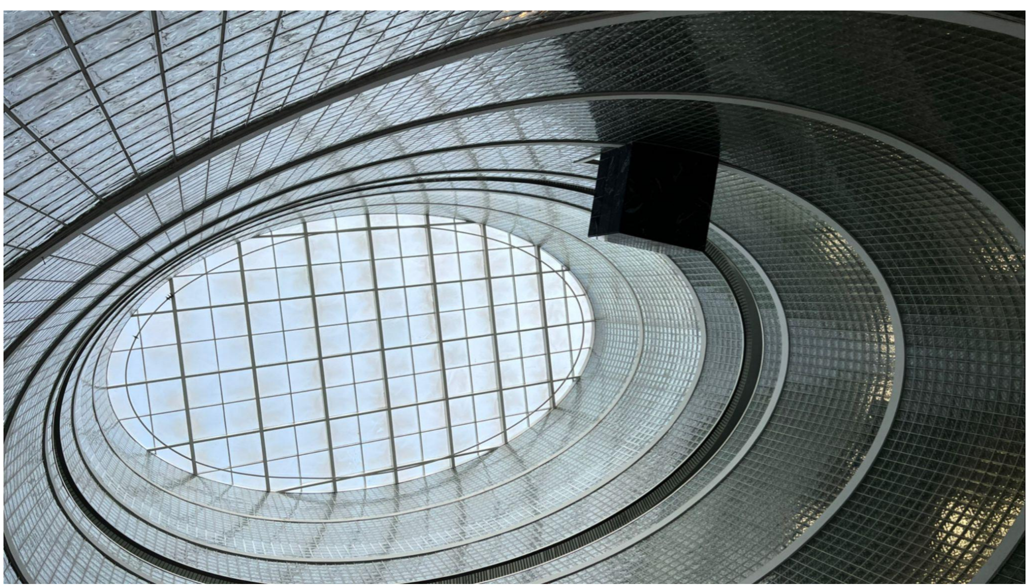


Source: Yardeni Research, May 2023

Should EM currencies revert to the mean, earnings per share measured in US dollars will surge. Following 2001, when the US dollar fell versus global currencies, the beneficiaries were EM equities, which outperformed the S&P 500 over the next decade. The timing of currency moves and their amplitude are almost impossible to predict. With EM currencies at 25 year lows, geopolitical stories that have brought down Chinese and Brazil equity valuations, to name only those two large markets, history has shown that a reversion to the mean would create significant outperformance, which is why most strategists include a significant allocation to emerging markets in their target portfolios. As our investors know, we consider emerging markets equities a cornerstone investment for the next decades because their structural tailwinds are enormous.

Emerging markets EPS growth has been stronger than the US' by approximately 1% since 1995. EM countries have just a fraction of the GDP per capita that the US enjoys. Their room to grow is huge and important milestones make their progress unstoppable, such as the knowledge database that the internet brings, increased globalization of trade and increasingly capitalistic societies which started with Adam Smith in the 1700's. While the S&P 500 has been the best performing index of the past 100 years, many forget that America too was once an emerging market that adopted capitalism and saw its population and capital markets grow. Today, the U.S. is the wealthiest nation in the world, much like Great Britain was in 1901. South Korea is just an example of how EM economies can explode onto the world stage. Chances are that India will produce many of the corporate leaders of tomorrow.

Ethical equity



Credicorp headquarters, Lima, December 6, 2022

- Credicorp is in our Ethical Equity strategy mainly because of its strategic focus on financial inclusion.

Our work on the Ethical Equity strategy has focused on research in the following forward investment themes: the increased electrification and intelligence of vehicles and its effect on product life cycles; the major infrastructure upgrades needed in the world which are geared toward less pollutants, less waste and better energy efficiency, including residential infrastructure; and the widespread trend toward a better lifestyle in terms of work-life balance. With those forward investment themes in mind, we focus our research on companies that recognize their impact on climate change and the importance of sound governance and significant diversity in their workforce in order to achieve superior performance.

Top 3 contributors to active performance in Q1:

- Taiwan Semiconductor Manufacturing Co, which gained after reaffirming its target for capital spending this year, in a sign it intends to keep its lead in advanced semiconductors ahead of an estimated tech recovery in the second half. In addition to electricity, fossil fuels used for semiconductor production include heavy oil, gas, LPG, and kerosene. The industry also requires vast amounts of water and energy to get the chips out of the door. This calls for strategies to lessen the adverse effects of product manufacturing on the environment while preserving economic development and quality of life. To achieve this, we should improve the quality and increase the lifespan of the things we use. It's time for economies and governments to focus on designing and implementing policies and regulations to improve the quality and longevity of the products used by individuals and institutions. Along with benefiting the environment, higher-quality products also positively impact the economy. Therefore, we are firm believers that the increased intelligence of electronics in everyday use such as cars will increase their usefulness and positively shift our consumption to services. TSMC is a leader in equipping those smart products with innovative microchips, while having aggressive targets to improve its own production through reduced water usage and waste, an increased use of clean energy and decent working conditions for its staff.
- Schneider Electric, which after the UN Intergovernmental Panel on Climate Change published its latest synthesis report outlining the dramatic cost of global inaction on climate change, reiterated that there is still a very short window of time to act. The company has helped millions gain access to clean and reliable electricity, balancing the need to reduce energy-related carbon emissions globally while also empowering communities to grow the necessary skills base to support their future energy needs and close the energy access gap.
- Infineon Technologies, the German-based semiconductor manufacturer, had a strong first quarter, in particular thanks to energy transition and expansion of electromobility in industrial and automotive applications, despite significantly weaker demand in smartphones, PCs and data centers. Making life greener is part of the company's mission.: finding smarter and more efficient ways of generating, transmitting, storing, and using energy, as well as becoming carbon neutral by 2030, achieving the targets defined in the Paris Climate Agreement related to its own greenhouse gas footprint, including all direct emissions, but also indirect emissions from electricity and heat production.

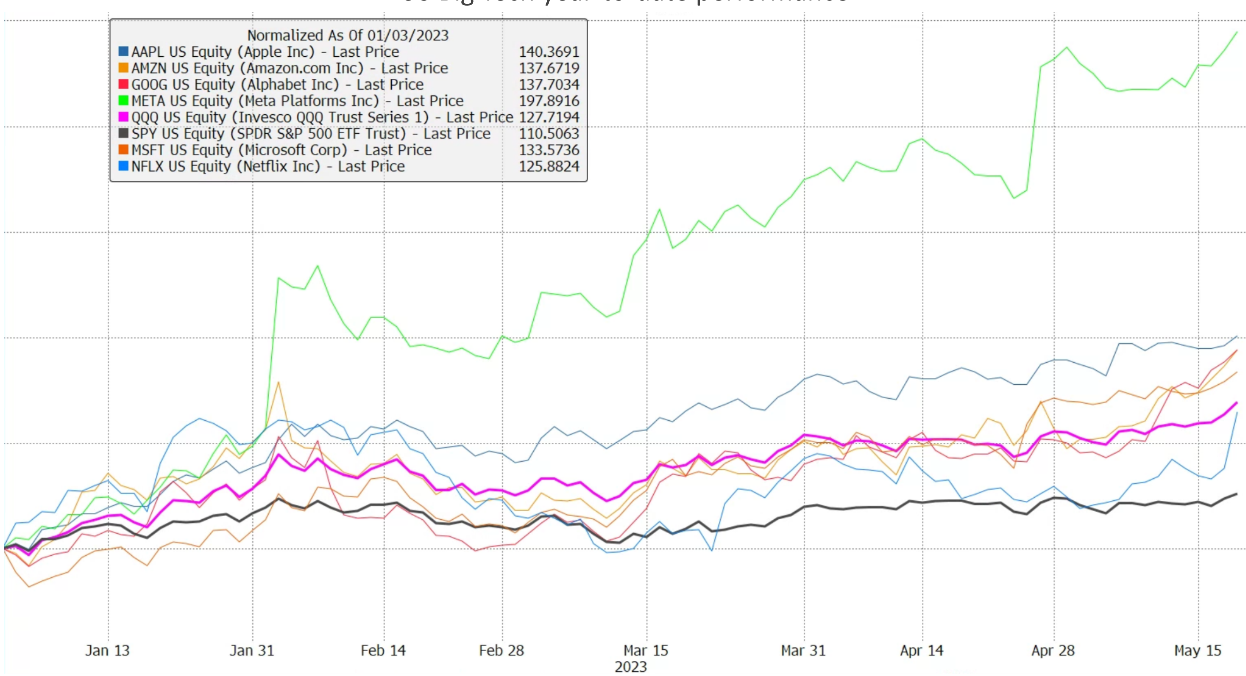
Bottom 3 contributors to active performance in Q1:

- Nvidia contributed negatively to our portfolio performance, as a result of not owning it when it outperformed our ACWI benchmark. The stock is valued at a PE of 100+ and while it sits at the gate of society's shift to a widespread use of AI and meets several of our fundamental criteria, we aren't comfortable assessing its intrinsic value yet.

- Meta Platforms also contributed negatively as a result of not owning it when it outperformed the benchmark. As we explained before, there are numerous aspects of the company's business practices that we find unethical.
- Tigermed slightly contributed negatively, at a time of high volatility in Chinese stocks. The company has been executing its business plan satisfactorily but the stock has unfortunately been more volatile than its local market as of late.

In the US, the tech sector has rallied year-to-date and investors' expectations might still just be too high. Dreaming is back in vogue with the visible progress of artificial intelligence applications and the imminent commercialization of augmented and virtual reality, but which companies exactly will benefit from those new market capitalizations is difficult to predict this early on, except for some obvious hardware and equipment makers. Tech stocks also react positively to the inversion of the yield curve lowering the discount rate of future cash flows, whether right or wrong in its prediction of the economy. Higher for longer rates would bring a further dent in tech valuations. Interestingly, the NASDAQ is slightly up year to date in a reversion to its mean, while the S&P 500, without the few Big Tech stocks, would be down. Investors and companies see darker clouds on the horizon.

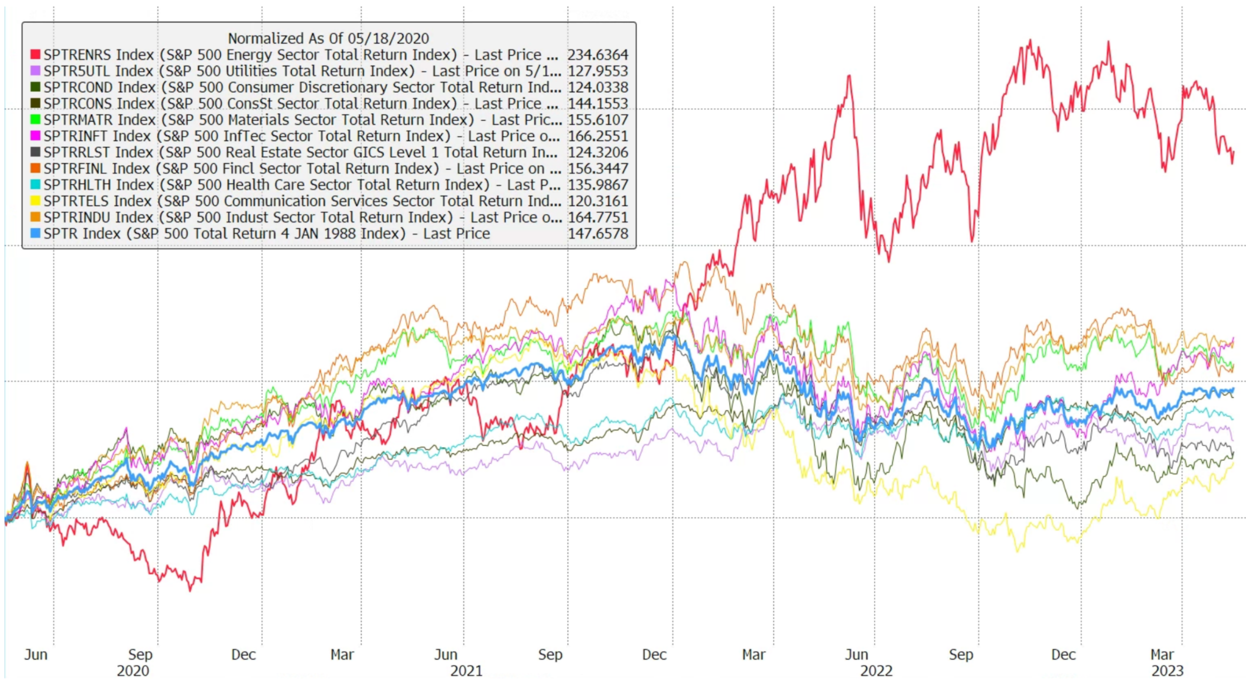
US Big Tech year-to-date performance



Source: Bloomberg, May 2023

On what many investors see as the opposite side of the ESG spectrum, the energy sector has been the best performing sector over the past two years, with many oil and gas companies still trading at high free cash flow yields, however lagging this year while investors remain skeptical, as global funds on average are still underweight the sector. Having been burned by the poor industry returns in the most recent cycle, investors may have given up altogether. This could be due to concerns that the current oil prices and resulting free cash flow yields will not last, to ESG constraints, or to worries about the terminal value of their investments given new technologies like electric vehicles and renewable energy.

S&P 500 GICS level 1 sector performance



Source: Bloomberg, May 2023

It is important to note that the energy sector weighting is currently only about 5% of the S&P 500 index, but it contributes to 10% of total earnings. Even in the International Energy Agency's conservative scenario, there is undeniably an approaching peak of fossil fuel consumption, while wind and solar continue to grow. However, most growth in power generation is highly concentrated geographically. Some solutions to past problems will lead to new problems later and it’s up to us to identify the bottlenecks. Historically, oil cycles have been long, with up and down cycles lasting 15 years or longer. Investing in income-producing assets with long reserve life that have optionality on higher prices and run by competent and responsible management is financially sound.

Best regards,

Mount Murray Investment