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Purpose INVESTMENTS

FUND COMMENTARY

Purpose Structured Equity Yield Fund

This fund was renamed from Purpose Structured Equity Yield Portfolio to Purpose Structured Equity Yield Fund effective April 13, 2023

FUND DETAILS

SERIES F MGMT FEES	**PFC6201** 0.65%
SERIES A MGMT FEES	**PFC6200** 1.65%

Inception date: OCT 22, 2019

FUND MANAGERS

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After a few years of alignment between Central Banks, this change marked the onset of a split between Canada and the US as the US is expected to maintain interest rates until fall.

MARKET OVERVIEW

After retreating in April, Equity Markets recovered in May and hit all-time highs against the backdrop of strong corporate earnings and significant buybacks. S&P 500 ended the month up 5.0% and S&P/TSX up 2.8%. Bond yields retreated during the month ending at 4.50%.

Looking ahead for the year, with equity markets at all-time highs and the risk of a volatile summer against the backdrop of a divergence in Central Bank policy, a narrowing of leadership in equity performance and an increasingly concerning geopolitical backdrop, it may be prudent to add protection – paving the way for Structured Equity Funds.

During the month of May, both the Bank of Canada and the Federal Reserve maintained their overnight rates. However, on June 5th, as per market expectations, the Bank of Canada cut its overnight rate by 0.25%. After a few years of alignment between Central Banks, this change marked the onset of a split between Canada and the US as the US is expected to maintain interest rates until fall.

FUND PERFORMANCE AND POSITIONING

As equity markets recovered in May, the fund was positive as well, up 2.33% for the month, recovering some of the markdowns from April. It maintains its lower sensitivity to equity, benefiting from ample downside protection built up during the market rally.

Despite significant volatility in interest rates in May, with the US 10-year Treasury yield ranging from 4.3% - 4.7%, the fund was minimally affected. The fund's lower duration exposure compared to traditional fixed income funds reinforces its role as a good income diversifier. Further, most holdings have been nearing their callable threshold, which insulates the portfolio against rate fluctuations.

With many positions getting called during the month, the fund's cash level currently remains elevated. The portfolio management team is strategically deploying this capital, carefully balancing the opportunity to buy new positions at favourable levels.

Asset allocation in the fund remains fairly stable, with a tilt towards major indices instead of sub-sectors. Despite the limelight on growth, the fund's strategy involves seeking out Value stocks poised for a rebound. Historically, Value has thrived in clear economic conditions and moderate interest rate environments, particularly after lagging behind tech.

The fund is poised to leverage this trend as economic indicators stabilize. Further, the fund has been strategically balanced for Resilience and Growth. The fund's proactive shift from the Nasdaq to the TSX60 underscores a defensive yet opportunistic stance. With Russell 2000 holdings currently undervalued, it is positioned to capitalize on a potential rally that favours small-cap equities, ensuring the portfolio is primed for both protective stability and dynamic growth.

With central banks potentially orchestrating a soft landing, such as timely rate cuts to tame inflation, we anticipate a supportive environment for equity valuations and a reduction in equity volatility. This backdrop should also pave the way for bonds to perform well, offering a dual advantage for the fund's portfolio strategy.

Earnings have been resilient, and with less pronounced tail risks ahead, structured products stand to benefit. The portfolio is well-positioned to outperform as it requires only moderate returns to do so. This stability bolsters all positions, increasing the likelihood of staying 'in the money'.

The fund currently is almost entirely invested with a small allocation to Cash to take advantage of favourable entry points (cash weight: 4.60%).

While the market never offers certainty, PSY provides clarity on the risk exposure as a defined outcome strategy by generating stable yields and providing contingent downside protection. Building on last year's robust recovery, the fund has the potential for further growth. As interest rates decline, the manager expects the fund to capitalize on this movement, further bolstering the NAV's upward trajectory and enhancing its role as a diversifying component in our clients' portfolios.

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FUND PERFORMANCE

ALL PERFORMANCE DATA AS AT MAY 31, 2024

PURPOSE STRUCTURED EQUITY YIELD FUND	1 MONTH	3 MONTHS	6 MONTHS	YTD	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Series A	2.23%	4.42%	11.92%	6.32%	19.66%	2.07%	-	3.23%
Series F	2.33%	4.72%	12.56%	6.83%	21.02%	3.23%	-	4.33%

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