

PURPOSE SELECT EQUITY FUND DECEMBER 2019 COMMENTARY

FOR ACCREDITED INVESTORS ONLY

QUICK FACTS

SERIES F	PFC5001
SERIES A	PFC5000
MGMT FEE	1.00%
PERFORMANCE FEE	20%*

*On the increase in the NAV in a year when performance of the Fund exceeds the positive return of the S&P/TSX Composite Index plus 2%.



GREG TAYLOR
PORTFOLIO MANAGER

Greg Taylor is a momentum manager who lets numbers tell him which stocks will be moving up his screen today, and in the future. Greg spent 15 years managing both pension and mutual fund assets at Aurion Capital Management. Recipient of numerous Brendan Wood International "Top Gun" awards, he's a frequent host and guest on BNN and Toronto's 680 News.

Market overview

2019 was not a normal year for investing. If you had perfect information in January and knew by the end of the year earnings would decline by 6% and that mid-year recession fears were so common that the yield curve would invert, what would you predict the market would do? Flat might be the most optimistic outlook. Those things all happened, but the outcome was much different as 2019 was a year when everything went up.

The annual returns for the major equity indices were massive, but with the caveat that returns were skewed by the way 2018 ended. Almost all the equity gains can be attributed to multiple expansion. Buybacks may have contributed to some of the gains, but the true reason for the returns was the increase in investor sentiment.

Multiples expanded through the year as the market 'climbed a wall of worry' to end at record highs. The recession fears faded away with a detente in the trade war and the yield curve steepened following its brief summer inversion. Oil and copper staged impressive recoveries, boasted by a falling US dollar. Even gold had a good year.

While equities get the headlines, the move in bonds may be the story of the year. Starting 2019 with the Federal Reserve in tightening mode, most observers were predicting yields on the US 10-year Treasury would stay higher. By the summer, the yield sank below 1.5%. Three rate cuts later and a recovery in growth globally, yields ended the year closer to 2%. Globally, the amount of negative yielding bonds is falling. For

now, recession fears have subsided and global growth is improving.

The Fund ended the year with a positive return, but well behind the market averages. A defensive positioning, where several times through the year we were expecting a pullback that didn't materialize, and an allocation towards some resource names that didn't start to pan out until the late in the year contributed to the underperformance.

Looking to 2020, we don't expect as strong a year as last. We do expect an increase in volatility.

US politics will dominate headlines up to the presidential election. The status quo of a Trump victory is priced into the market. So are expectations for smooth trade talks and a recovery in global growth. The biggest fear for investors should be polls coming out showing an election win by either Bernie Sanders or Elizabeth Warren, both of which have Wall Street in their sights.

The combination of US volatility and stronger global markets may finally start the long-awaited rotation away from the crowded allocations of US equities, especially information technology. Cyclical sectors such as financials, materials and energy may take over the lead. The late-cycle rotation may be in the cards this year and this could end up being a good setup for emerging markets (including Canada) to finally play catch up.

The next decade won't look like the last. They never do. But several trends already appear to be taking hold.

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Increased automation and passive investing have created a new environment for trading. The advent of better information and tools has made ESG investing accessible to all. The next generation of investors has taken notice and is making its influence felt.

The bond market will set the tone for 2020. Can yields break over 2% and target 2.5%? Central banks aren't

expected to make any moves this year, but rates should move higher with global growth. If this growth does emerge, the debate will be about how far it will be allowed to run before inflation fears return. The wildcard prediction for 2020 would be a return of inflation. After a year in which everything worked, it's time to prepare for the unexpected and position accordingly.

Purpose Select Equity Fund	1 month	3 month	6 month	YTD	1 year	3 year	Since inception
Series F	4.86%	7.23%	4.09%	10.08%	10.08%	0.77%	6.12%
Series A	4.77%	6.81%	3.55%	8.97%	8.97%	-0.33%	3.71%

All performance as at December 31, 2019.

All data sourced to Bloomberg unless otherwise noted.

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