

# PICTON MAHONEY FORTIFIED MULTI-STRATEGY ALTERNATIVE FUND

At Picton Mahoney Asset Management, we recognize the increasing importance of the Know Your Product (KYP) requirements. To help you with this, we have prepared this KYP document for each of our mutual funds and liquid alternatives. These documents are carefully crafted to include information you might need to satisfy KYP requirements for the portfolios you have entrusted us with. You can expect to find these documents maintained on a quarterly basis.

This document includes:

- [FIRM OVERVIEW](#)
- [UNDERSTAND OUR PROCESS](#)
- [KNOW YOUR PRODUCT \(KYP\)](#)
- [WHAT MAKES US DIFFERENT?](#)
- [USEFUL RESOURCES TO COMPLETE THE KYP JOURNEY](#)

## FIRM OVERVIEW

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| <b>Our Mission</b>         | To help investors achieve their financial goals with greater certainty.  |
| <b>Firm Background</b>     | <p>In 2004, Picton Mahoney Asset Management ("PMAM") was founded with the goal of providing thought-leading investment management services to institutional, retail, and high net worth investors in Canada.</p> <p>PMAM has about \$9.4 billion in assets under management in sub-advisory, hedge fund and mutual fund assets as at June 30, 2023, and has been 100% employee-owned since inception.</p>  |
| <b>The Investment Team</b> | <p>The Picton Mahoney Fortified Multi-Strategy Alternative Fund ("the Fund") is managed by <b>Michael White, CFA</b>, <b>Neil Simons</b> and <b>Dashmeet Singh, CFA</b>.</p> <p>Michael White is responsible for Picton Mahoney Asset Management's multi-asset strategies. Prior to joining Picton Mahoney Asset Management in 2016, Mr. White was a portfolio manager responsible for asset allocation mandates at AGF Investments Inc. Active in the industry since 1996, Mr. White's previous experience includes positions as Director of Institutional Equity Sales at Scotia Capital Inc., Lead Manager of Scotia Canadian Small Cap Fund at Scotia Cassels Investment Counsel, and Co-Chair of the CIO Compliance Committee as well as portfolio manager for small cap, mid cap and ethical categories at Strategiconova Funds Management. Mr. White earned a Bachelor of Arts, History with Finance &amp; Economics Stream from Western University and is a CFA charterholder.</p> <p>Neil Simons is a Portfolio Manager specializing in multi-asset and alternative risk premia strategies. He joined Picton Mahoney Asset Management in 2017 after spending more than a decade at Northwater Capital Management Inc. in various roles, most recently as Managing Director. At Northwater, Mr. Simons led the liquid alternative strategies group and managed custom portfolios for institutional investors. Mr. Simons began his career in the industry at Royal Bank of Canada, where he was responsible for enterprise-wide market risk analysis and reporting across the bank's global trading activities. He holds a Ph.D. in Electrical Engineering from the University of Manitoba and a Masters degree in Mathematical Finance from the University of Toronto.</p> <p>Dashmeet Singh Mayal is a Portfolio Manager and Director of Quantitative Research and Risk at Picton Mahoney Asset Management and has been in the industry since 2008. Prior to joining us, he was a Risk Analyst at HSBC Canada. Other experience includes three years at Infosys Technologies Limited as a software engineer. Dashmeet has an MBA from the University of British Columbia, a Bachelor of Mechanical Engineering (with High Distinction) from the Government College of Engineering in Pune, India and is a CFA charterholder.</p> |

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## THE PROCESS

### Our Philosophy and why it works

PMAM's investment philosophy is firmly rooted in the belief that fundamental change is the core driver of share price performance. We also believe that systematic and repeatable processes alongside strong risk management capabilities are the key to successful investing and consistent outperformance. PMAM was born out of these principles, which remain intact and unchanged to this day.

The rationale behind our thinking:

- Disclosure in many markets is efficient and instantaneous with securities quickly reflecting all known information. Therefore, change at the margin is the key driver of price.
- Our research has found that positive and negative fundamental changes tend to occur in bundles.
- Many investors are reluctant to change their long-standing opinion on a security even though fundamental information is changing before their eyes.
- Small changes today have the potential to compound significantly over time.

We believe that proper portfolio construction is a key differentiator in the Canadian investment industry. Our goal is to construct diversified portfolios that maximize our investor's exposure to the fundamental change characteristics we value - while at the same time maintaining our pre-determined risk targets.

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### Our Process

For equity mandates, we employ a unique combination of quantitative models and fundamental research - united in purpose, but distinct and independent in operation, both disciplines consider similar opportunities and risk factors. When these separate engines agree with one another on an investment candidate, it provides a powerful fundamental change signal, which bolsters manager conviction during the security selection process.

Quantitative research: Our team uses an internal quantitative platform and our proprietary method of creating fundamental "super factors" through a multi-level back-testing framework. We measure and rank companies on the following "super factors":

- Fundamental momentum and relative strength: earnings and revenue momentum, price momentum, earnings forecast revisions and surprises, short interest.
- Quality: Earnings accrual and earnings stability.
- Valuation: Various metrics are used to differentiate securities with similar momentum. (Price/Book, Price/Earnings, Price/Sales, etc.)

The quantitative team develops optimized model portfolios accounting for risk-adjusted performance and transaction costs. These models are recorded on our proprietary software platform, and their performance is tracked daily.

Fundamental research: Our team of fundamental sector analysts search for companies undergoing fundamental change independent of our quantitative team. This team uses proprietary/publicly available materials and resources to identify change candidates prior to detection by traditional quantitative strategies. Analysts subsequently develop thesis statements for 20 high-conviction names which are recorded on our proprietary software platform, and their performance is tracked daily.

On the Fixed Income side, we start by optimizing the investable universe with pre-determined risk/reward criteria, market risk of securities is assessed using their credit beta, rate beta, and a liquidity score – a composite score of trade, market, and issue characteristics. We look at the key characteristics of the company, the risks, and the competitive landscape, analyze the bond covenants and structure, and conclude with valuation metrics and target price. Valuable input from our Equity Analysts is also taken into account.

When constructing portfolios, the Portfolio Managers, along with their respective Portfolio Analysts begin assessing those securities which rank as attractive long and short candidates by both our Quantitative and Fundamental processes.

Proprietary systems group securities by conventional metrics, credit, and rate beta as well as strategy classification—these drive hedging decisions and reporting. Our hedging-tool kit is expansive. The proprietary Stress-Testing Model helps assess the portfolio impact of traditional market shocks and binary events. Our Weekly Credit Committee Meeting with Detailed Portfolio Reporting and daily automated Attribution Reports provide rigorous oversight.

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### Portfolio Construction

PMAM uses a multi-layered investment process rooted in modern portfolio construction techniques and a comprehensive set of traditional and alternative asset classes, factor risk premia strategies, and alpha processes.

The portfolio management process employs a proprietary economic cycle model in order to assess asset class and risk premia strategy behaviour and to construct portfolios. Using both systematic as well as discretionary approaches, the manager will apply strategic and tactical allocations at all levels of the Fund, within and across layers. The strategic allocations will be aligned with a longer-term view of the behaviour and characteristics of markets and strategies. The

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tactical allocations will be based on a short to intermediate time horizon and may contain portfolio hedges through the use of options, futures and other securities.

The portfolio management process will also use a risk-budgeting process to weigh different components of the portfolios. The risk-budgeting will occur across layers as well as within layers. A variety of methods are used to measure risk, including, standard deviation of returns (volatility), maximum drawdown experienced through time, tail-risk as defined by a large loss over a short time horizon as well as both historical and hypothetical stress tests. Both qualitative and quantitative approaches are used to estimate risk measures. The risk measures are potentially applied to the individual markets as well as asset classes, strategies, layers and fund investments.

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**Risk Management**

The Picton Mahoney Fortified Multi-Strategy Alternative Fund is managed using a systematic process – the same infrastructure and methods as used with all of PMAM’s multi-strategy portfolios. Individual component strategies and factors expected to be utilized within the Picton Mahoney Fortified Multi-Strategy Alternative Fund are managed by the Equity, Fixed Income and Quantitative teams. Each element and sub-portfolio and the overall portfolio will be measured using a variety of risk measures.

The Fund is continuously monitored by our dedicated Risk Management Committee, which is comprised of personnel from each of the following teams:

- Quantitative Research and Risk;
- Portfolio Management, Equity;
- Fixed Income; and
- Compliance.

The committee is responsible for establishing and reviewing appropriate controls and guidelines to manage potential investment risks (including liquidity risk), overseeing the monitoring of the strategies, and escalating related matters to senior management. This function assures adherence to respective mandate guidelines while mitigating any unintended exposures daily.

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**Buy/Sell Discipline**

Position weights are largely determined via our economic model. A combination of dollar and risk weights are used to determine position sizes. In the instance of discretionary trades outside of the portfolio model are monitored daily and reviewed by the Portfolio Management group at least weekly.

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**Investment Research**

The vast majority (~80%-90%) of investment research/ideas are generated in-house. Our Quantitative and Fundamental Teams operate independently, providing recommendations based on their thorough assessments of specific trends and fundamental change characteristics.

Our proprietary in-house modelling platform is constructed using data supplied by several providers. Our investment team also leverage information from various sources regarding change stories and earnings models to determine the assumptions that are embedded in their growth forecasts.

For Fixed Income, we use several proprietary quantitative factors, including Rate and Credit Beta and Liquidity Score, as well as conventional quantitative considerations, including yield to worst and duration. Corporate bonds necessitate a value investment style, given the asymmetric return potential of the asset. We combine quantitative and fundamental analytics to simplify our opportunity set, generate ideas, and assess risk and opportunity.

For initiation of a position, we analyze financial statements and bond covenants with a review of sell-side research and industry analysis. For longer-term positions we maintain regular dialogue with the management team to stay up to date with industry and company developments.

Our stress-testing models are updated daily with an aim to assess portfolio implications from various macro developments, such as increasing government bond yields (Rate Risk), and/or widening credit spreads (Credit Risk), market liquidity changes and risk on/off.

## KYP

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| <b>Objective</b>  | The investment objective of the Fund is to provide consistent long-term capital appreciation with an attractive risk-adjusted rate of return over a full market cycle.  |   |
| <b>Strategy</b>   | <p>The Portfolio Adviser uses a multi-layered investment process rooted in modern portfolio construction techniques and a comprehensive set of traditional and alternative asset classes, factor risk premia strategies, and alpha processes.</p> <p>The portfolio management process employs a proprietary economic cycle model in order to assess asset class and risk premia strategy behaviour and to construct portfolios. Using both systematic as well as discretionary approaches, the manager will apply strategic and tactical allocations at all levels of the Fund, within and across layers. The strategic allocations will be aligned with a longer-term view of the behaviour and characteristics of markets and strategies. The tactical allocations will be based on a short to intermediate time horizon and may contain portfolio hedges through the use of options, futures and other securities.</p> <p>The portfolio management process will also use a risk-budgeting process to weigh different components of the portfolios. The risk-budgeting will occur across layers as well as within layers. A variety of methods are used to measure risk, including, standard deviation of returns (volatility), maximum drawdown experienced through time, tail-risk as defined by a large loss over a short time horizon as well as both historical and hypothetical stress tests. Both qualitative and quantitative approaches are used to estimate risk measures. The risk measures are potentially applied to the individual markets as well as asset classes, strategies, layers and fund investments.</p> |   |
| <b>Inception date</b>                                   | September 27, 2018  |   |
| <b>Benchmark</b>  | 5% FTSE TMX Canada 30 Day T-Bill Index, 40% MSCI World 100% Hedged to CAD Net Total Return Index, 5% LMBA Gold Price, 40% ICE BofAML Global Broad Market Index (Hedge to CAD), 10% S&P GSCI Canadian Dollar Hedged Index TR   |   |
| <b>Product AUM</b>                                      | \$76.2 Million  |   |
| <b>CIFSC Classification</b>                             | Alternative Multi-Strategy  |   |
| <b>Minimum Investments</b>                              | Initial: \$2,000<br>Subsequent: \$500   |   |
| <b>Distribution Frequency</b>                           | <p>Class A &amp; F: Annually in December of each year; All distributions paid will be automatically reinvested in additional units unless the holder instructs the Fund to pay such distributions in cash.</p> <p>Class FT: Monthly</p>   |   |
| <b>Risk Rating</b>                                      | <p>Morningstar: Low to Medium</p> <p>Manager Risk Rating: Low to Medium</p>   |   |
| <b>Fees</b>   | <b>Management Fee</b>   | Class A: 1.95%; Class F: 0.95%; Class FT: 0.95%                             |
|   | <b>Performance Fee</b>  | 20% (of performance above a 2% hurdle rate) with a perpetual high watermark |
|   | <b>MER<sup>1</sup></b>  | As at 30 June, 2023,<br>Class A: 3.59%; Class F: 2.51%; Class FT: 2.46%     |
| <sup>1</sup> This does not include fees paid to advisor |   |   |
| <b>Service Providers</b>                                | <p>For the Picton Mahoney Fortified Multi-Strategy Alternative Fund:</p> <ul style="list-style-type: none"> <li>• Auditor: PricewaterhouseCoopers LLP</li> <li>• Custodian: RBC Investor Services Trust</li> <li>• Administrator: RBC Investor Services Trust</li> <li>• Prime Broker: RBC Dominion Securities Inc. and Goldman Sachs &amp; Co. LLC</li> <li>• Registrar: RBC Investor Services Trust, TSX Trust Company Inc. (ETF Units)</li> <li>• Legal Counsel: Osler, Hoskin &amp; Harcourt LLP</li> </ul>   |   |

## WHAT MAKES US DIFFERENT?

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|-----------------|---|
| <b>The Fund</b> | <ul style="list-style-type: none"> <li>• An all-in-one solution that is engineered to seek returns in a manner differentiated from traditional “balanced”/“diversified” strategies.</li> <li>• A layered investment process based on modern portfolio construction techniques utilizing a comprehensive set of traditional and alternative asset classes, factor risk premia and alpha processes.</li> <li>• The fund aims to lower overall risk profile, thus enhancing the quality of returns garnered.</li> <li>• Fundamental, Quantitative, and Strategy investing skills from the Equity, Fixed Income and Merger Arbitrage teams.</li> <li>• A unique view of Factor Risk Premia.</li> <li>• Dedicated allocation to tail risk strategies - the new normal of markets contains tail risk.</li> <li>• PMAM's portfolio management team has over 15 years of experience developing and managing innovative investment strategies for our clients. PMAM's investment solutions manage risk exposures to help investors maximize their overall returns for the level of risk they are comfortable accepting. Our differentiated investment process combines discipline with stringent risk controls to enhance risk-adjusted returns through all market cycles. Our process has been especially important during more uncertain market environments.</li> <li>• Our investment results reflect the unique blending of Fundamental and Quantitative research.</li> </ul> |
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USEFUL LINKS<sup>2</sup>

## KYP Contents

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| <a href="#">Fund Facts</a>                  | <ul style="list-style-type: none"> <li>• Typical leverage</li> <li>• Performance highlights</li> <li>• Who is this fund for?</li> </ul>   |
| <a href="#">Fund Profile</a>                | <ul style="list-style-type: none"> <li>• Trailing Performance</li> <li>• Exposure data</li> <li>• Geographic breakdown</li> <li>• Sector Breakdown</li> <li>• Top Ten Holdings</li> <li>• Risk/Reward Analysis</li> </ul> |
| <a href="#">Quarterly Disclosures</a>       | <ul style="list-style-type: none"> <li>• Summary of Investment Portfolio</li> </ul>   |
| <a href="#">Meet the Portfolio Managers</a> | <ul style="list-style-type: none"> <li>• Find out more about our thought-leaders</li> </ul>   |
| <a href="#">Our Multi-Asset Outlook</a>     | <ul style="list-style-type: none"> <li>• Learn about our house-views and economic outlook</li> </ul>  |

<sup>2</sup>Product-specific links are provided for Class-F of the Fund.

## **Disclosure**

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Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Alternative mutual funds can only be purchased through a registered dealer and are available only in those jurisdictions where they may be lawfully offered for sale.

All currency noted in this document is in Canadian Dollar.

There is no guarantee that a hedging strategy will be effective or achieve its intended effect. The use of derivatives or short selling carries several risks which may restrict a strategy in realizing its profits, limiting its losses, or, which cause a strategy to realize or magnify losses. There may be additional costs and expenses associated with the use of derivatives and short selling in a hedging strategy.

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