"If you invest in the present, you're going to get run over."
— Stanley Druckenmiller"

Second Quarter 2020

As we collectively settle into our COVID-19 regimes, the oddity of the circumstances begin to feel normal. With each passing day, we develop a sense of what life will be like until a vaccine is discovered. Stock markets appear unphased by this new reality having divorced themselves from underlying economic trends and earnings, instead rallying on the unprecedented stimulus provided by global central banks and the idea we will return to normal soon. Performance of every asset class continues to be impacted by the uncertain social, economic and political landscape. In the first six months of 2020, asset classes that historically provided safety in volatile markets have done just that. Long duration treasuries and Gold have returned 21.6% and 17.4% respectively. Stock markets around the world remain in negative territory for the year, even after a substantial run in the second quarter where the S&P 500 advanced 20.5% and the S&P/TSX index climbed 17.0%.

Figure 1:

Asset Class	YTD 2020 Total Return
Treasuries (Long Duration)	21.6%
Gold ($/oz)	17.4%
IG Corporate Bonds	6.1%
S&P500	-3.1%
HY Corporate Bonds	-5.2%
S&P/TSX Composite	-7.5%
Emerging Markets	-9.7%
EAFE	-11.1%
Russell 2000	-13.0%
REIT's	-13.3%
Commodities	-19.4%
Oil (WTI)	-35.7%

Source: Bloomberg, Mulvihill Capital

MPY returned 12.1% in the second quarter, and -2.8% YTD, outperforming the -7.5% YTD return from the S&P/TSX Composite Index.

The second quarterly distribution of $0.125 was paid at the end of June.

MPY Income Analysis

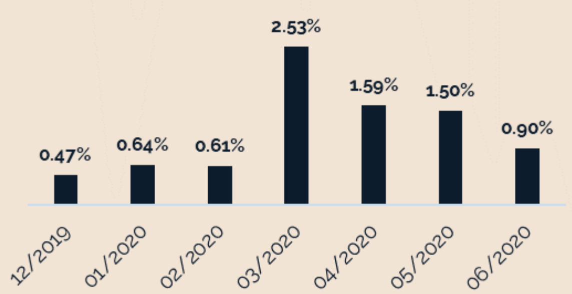
Income Objective:

- Achieve 50bps in option premiums per month (6% per year) to fund the targeted 5% distribution per annum

Option Premium Generated:

- **MPY has generated 8.0% in option premiums in the seven months since inception.**
- Averaged 1.2% per month in premiums generated.

MPY Monthly Option Premiums Generated
(Since Inception 12/01/2019)



Option Writing Statistics (since inception)

Total option trades	86
% Positive*	**79%**
% Negative**	**21%**
% of portfolio written (average)	30%
Call / Put Trades	78 / 8

*positive P/L or exercised below breakeven price

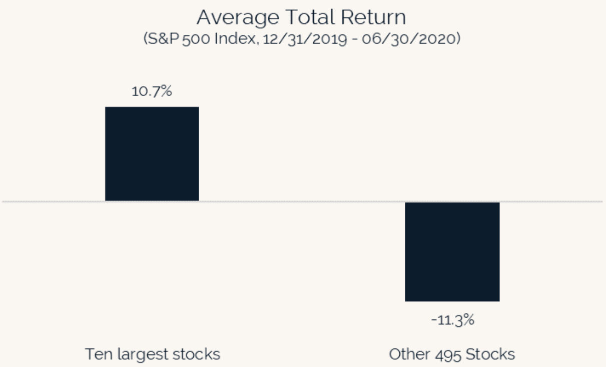
**negative P/L or exercised above breakeven price

Source: Mulvihill Capital

Megacap dominance

On the surface, the market as a whole has withstood the onslaught of negative catalysts remarkably well. The problem from a money management perspective is that the "market" has become increasingly concentrated into a handful of megacap names. If positioned outside of these behemoths, investor returns would have suffered drastically. The ten largest companies in the S&P 500 Index have a combined market capitalization of $8.6 Trillion, or about 32% of the index. **The average total return of these 10 stocks in the first six months of the year was 10.7%. The other 495 stocks that make up the S&P 500 returned on average -11.3%.**

Figure 2:



Source: Bloomberg, Mulvihill Capital

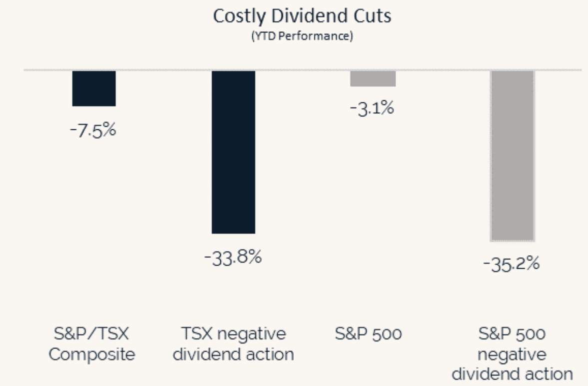
As discussed in our Q1 commentary, the Mulvihill Premium Yield Fund actively positioned towards a megacap bias in the portfolio. In the first six months of 2020, the fund owned, or currently owns, 7 of the top 10 largest names referenced above. This allocation had a meaningful impact on portfolio performance. Valuations in many of these names have soared as investors justify paying ever higher multiples on uncertain earnings prospects. MPY continues to hold these stocks but has begun to utilize the option writing strategies to generate income and buffer potential downside as we head into earnings season.

The trouble with dividends

While the Mulvihill Premium Yield Fund uses dividends as one input into the investment process, we have many concerns going forward with this strategy as a stand alone theme. With lasting shifts in consumer behavior and economic data signaling a longer recovery, many companies will need to rethink their dividend policy as sales have dried up and balance sheets deteriorate.

This has started to play out. By our calculations, 167 names in the S&P/TSX Composite pay a dividend. Of those, 21 companies (12.6%) have cut, discontinued or suspended their distributions this year. This includes perpetual dividend payers / growers like Suncor Energy Inc. who in the second quarter decreased the dividend by 55%, the first cut since they initiated it back in 1992. The S&P 500 shows similar results with 425 companies paying a dividend and 54 (12.7%) taking action to reduce or cut the dividend so far this year. As expected, the performance of these companies have suffered disproportionately relative to the broader markets. **The average return of companies that have taken negative dividend action in the S&P/TSX Composite and S&P 500 this year is -33.8% and -35.2% respectively. (see figure 3)**

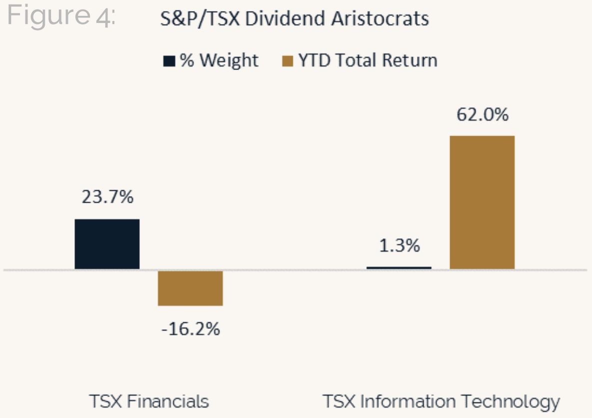
Figure 3:



Source: Bloomberg, Mulvihill Capital

Both the S&P/TSX Dividend Aristocrats Index and the S&P 500 Dividend Aristocrats index are designed to provide exposure to stocks with consistent dividend growth. In Canada, that means investing in companies that ***"have followed a managed dividend policy of consistently increasing dividends every year for 5 years".*** In the US the criteria increases to ***"increasing dividends every year for at least 25 consecutive years".*** The inherent problem with this construction is it favours old established companies and fails to recognize secular shifts in the composition of the market. In Canada, the S&P/TSX Dividend Aristocrats Index has nearly a 24% weight in financial stocks and just over 1% weight in Technology. This has been problematic for performance so far in 2020 (see figure 4). In the US, the S&P 500 Dividend Aristocrats Index owns just one Technology stock, Automatic Data Processing. Of the 10 largest names discussed previously, just two (Johnson & Johnson and Walmart) are in the index.

Figure 4:



Source: Bloomberg, Mulvihill Capital

MPY doesn't operate under such constraints, and thus offers many advantages over traditional dividend investing. Through option writing, the fund can invest in growth areas of the market often neglected by dividend investors, while remaining focused on income. For example, many gold and silver equities discontinued paying dividends after the gold price peaked in 2011, leaving them outside of the mandate of many income oriented investors. Given our current views of the macro tailwinds for gold, MPY has consistently held a position in precious metal stocks since inception. Our position and option writing in Pan American Silver Corp (see below) is one example of taking a low yielding stock in a strong segment of the market and utilizing the option writing strategy to generate an enhanced yield.

Pan American Silver Corp (PAAS)

PAAS yields 0.51% and doesn't meet the strict dividend growth criteria over a 5 year period to be included in the S&P/TSX Dividend Aristocrats Index.

Through one option transaction, MPY enhanced the yield of PAAS from 0.51% to 5.9%.

Transactions

- May 19th purchased stock at $37.135
- May 21st sold OTM options on entire position
  - Strike price = $38.00
  - Received $2.18 in premium (equivalent to 5.9% yield)
- Option expired worthless on June 19th (MPY keeps entire premium)
- PAAS ended the quarter at $41.23

Total return was 16.9%, a combination of capital appreciation and income from option premium.

The flexibility to invest outside of traditional high yielding sectors and stocks with low dividend yields has been beneficial. **Since the inception of MPY, the fund has significantly outperformed dividend strategies, done so with lower volatility and a higher yield.**

Figure 5:

	Total Return*	Yield	Std Dev
Mulvihill Premium Yield	**-2.9%**	**5.3%****	**33.8%**
S&P/TSX Dividend Aristocrats	-18.0%	4.8%	45.9%
S&P 500 Dividend Aristocrats	-7.9%	2.7%	42.6%

*since inception of MPY on 12/01/2019
**indicative yield as of June 30, 2020
Source: Bloomberg, Mulvihill Capital

Final Thoughts & Positioning

Recent improvements in economic data, albeit off a very low base, and surging stock prices appear to be masking larger risks that are building. Resurgent COVID-19 cases, the US presidential election, dwindling relations between US and China, high valuations, and social unrest fueled by race and inequality, remain top of mind. Risks aside, momentum has grabbed a hold of equity markets and we hesitate to fight the tape at this time. MPY remains near fully invested in large cap quality names that meet our investment criteria. This provides a balance between participating in a market move higher while managing risk through option strategies.

At quarter end the fund maintained a bias towards US equities over Canada. Technology and Communication Services stocks were the largest exposure while Energy and Real Estate (REIT's) remain absent from the portfolio. Our focus remains to generate consistent income and long-term returns for our investors.

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