Hindsight is 2020

Fourth Quarter 2020

The Mulvihill Premium Yield Fund "MPY" returned 5.9% in the fourth quarter of 2020, and 10.9% for the year. MPY outperformed the S&P/TSX Composite Index by 5.3% with lower volatility and a higher yield.

The fourth quarterly distribution of $0.125 was paid at the end of December. Total distributions received in 2020 were $0.50 per unit.

The number of market moving events in 2020 are simply too long to list. From the emergence of COVID-19, the continued mess that is the US political landscape, negative oil prices, to the nearly 750% surge in shares of Telsa Inc., 2020 was certainly a memorable one. As lockdowns shuttered the global economy and tipped the US into its first recession since the Global Financial Crisis, most asset classes were able to eke out positive returns, if not downright impressive results. Gold led the way returning 25.1% in the last twelve months followed by US small cap and Emerging Market stocks. Fixed Income also performed well in 2020 with long duration treasuries returning 18.1%, benefiting from a rapid decline in yields. The S&P/TSX Composite Index finished the year up 5.6% while Real Estate and Commodities (in particular energy) were the laggards.

Figure 1:

Asset Class	2020 Total Return
Gold ($/oz)	25.1%
Russell 2000	20.0%
Emerging Markets	18.5%
S&P500	18.4%
Treasuries (Long Duration)	18.1%
IG Corporate Bonds	11.3%
EAFE	8.3%
S&P/TSX Composite	5.6%
HY Corporate Bonds	4.7%
Commodities	-3.1%
REIT's	-5.1%
Oil (WTI)	-20.5%

Source: Bloomberg, Mulvihill Capital

MPY Income Analysis

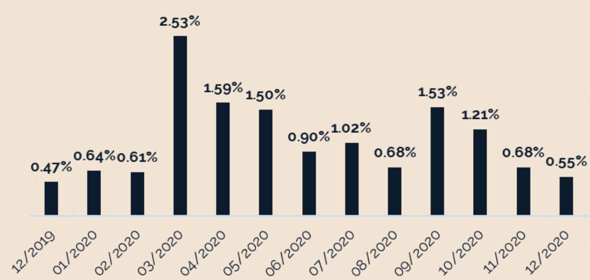
Income Objective:

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

Option Premium Generated:

- **MPY has generated 12.9% in option premiums in the last twelve months.**
- Averaged 1.0% per month in premiums generated.

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



Option Writing Statistics (since inception)

Total option trades	146
% Positive*	**78%**
% Negative**	**22%**
% of portfolio written (average)	28.%
Call / Put Trades	138 / 8

*positive P/L or exercised below breakeven price

**negative P/L or exercised above breakeven price

Source: Mulvihill Capital

Portfolio Positioning in 2020

The benefits of an actively managed portfolio and a flexible investment mandate were on full display in 2020. Broadly speaking, MPY positioning throughout the year can be categorized into two distinct themes.

First, a more defensive posture in which the portfolio had a bias towards low dividend yielding stocks and favoured growth and quality over value. The US Mega-cap technology sector, particularly FAANG stocks, satisfied most of these criteria and were heavily represented in the portfolio.

The second period, and where we find ourselves today, is broadly a more cyclical bias. As value stocks became washed out relative to growth stocks and the mega-cap dominance that defined the first half of 2020 appeared to be losing momentum, our focus shifted to a macro environment defined by rising bond yields and a declining US dollar. The portfolio adjusted rapidly to reflect this new reality. Geographically, the fund began reducing exposure to US stocks and investing in more cyclically oriented areas of the Canadian market (see figure 2). From a sector perspective, the focus was on increasing financial and material sector exposure. These stocks typically benefit from rising yields (Financials) and a lower US Dollar (Materials). This rotation brought the average market capitalization of the portfolio to $108 Billion (vs. $338 Billion in May), increased the underlying dividend yield and provided for a higher representation of value stocks in the portfolio.

Figure 2:

Source:, Mulvihill Capital Management

In the end, MPY significantly outperformed other income alternatives and the broader market in 2020. **The 10.9% total return was 13.2% higher than the S&P/TSX Dividend Aristocrats Index. This outperformance was achieved with half the volatility and higher yield.**

2021 Outlook

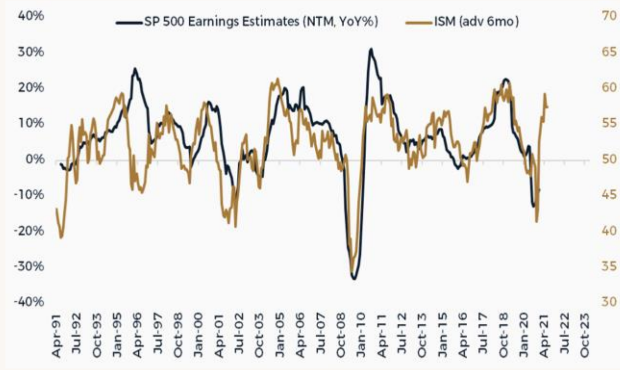
Our best assessment of what 2021 could potentially hold for equity markets is a period of contracting earnings multiples from near record highs. The S&P/500 index finished the year trading at nearly 30x trailing 12 months earnings (see figure 3). Multiples currently sit two standard deviations above the long-term average (back to 1950) of 17, and have only been higher at one other point in history, the technology bubble in the late 1990's.

Figure 3:

Source:, Mulvihill Capital Management, Bloomberg

Extreme valuations certainly signal caution and will send many investors to the safety of cash. However, we see a different dynamic playing out where multiples fall because of accelerating earnings (denominator), not because prices fall (numerator). Several macro indicators give us comfort in this thesis including the relationship of the ISM Manufacturing Index, a leading economic indicator of the economy, and its long-term relationship to S&P/500 Earnings (figure 4). Advancing the ISM by six months (gold line) has historically done a good job of predicting earnings growth.

Figure 4:



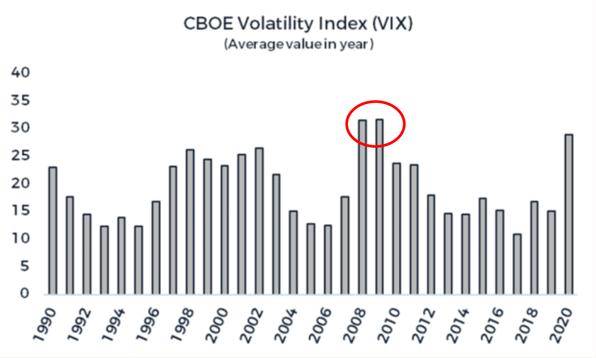
Source:, Mulvihill Capital Management, Bloomberg

Periods of rising earnings growth typically correspond with rising inflation, higher yields and a lower US Dollar. This is an attractive macro set up for cyclical, value and commodity based stocks. While several risks remain top of mind, most obvious being the general sense of complacency and bullish sentiment towards stocks, we continue to find plenty of opportunities and have positioned the portfolio accordingly.

Option Strategies

The average reading of the CBOE Volatility Index (VIX) in 2020 was the highest level since the financial crisis (see figure 5). Needless to say it has been a choppy year for equity markets. One of the main benefits of our strategy is monetizing high volatility through the options market to both generate income and reduce risk / volatility.

Figure 5:



Source:, Mulvihill Capital Management, Bloomberg

Our option writing benefited from two distinct pivots in our approach throughout the year.

- In February and March, when markets sold off aggressively and volatility spiked to near all time highs, we noticed an extreme inversion in the volatility curve (one week was higher than one month volatility). We began writing and rolling weekly options to profit from this dynamic.
- As markets dropped over 35% from the peak and settled down in late March, we became more bullish but were still seeing high volatility in some portfolio holdings. We adapted by writing higher volatility names (Gold & Technology stocks) and going deeper out of the money. This combination helped MPY provide better downside protection while still participating in the market upside.

Evolving our positioning to reflect opportunities presented in the options markets enabled the fund to extract the positive attributes of option writing strategies (enhanced yield, lower volatility) without the often-associated negative connotation of selling away upside. **MPY's active approach significantly outperformed popular passive option writing strategies. The CBOE S&P/500 BuyWrite Index and the BMO Canadian Covered Call ETF returned -2.3% and -6.8% respectively in the year, significantly lagging the 10.9% return from MPY.**

Enhanced Tax-efficient Yield

Tax-efficient income is the primary objective of MPY, aiming to achieve 50bps in option premiums per month (6% per year) to fund the targeted 5% distribution per annum. Given the elevated volatility in the last year, we have been extremely active on option writing generating an average of 1.0% per month in option premiums.

The income generated in the portfolio through our option strategies more than covered the $0.50 annual distribution. MPY unitholders benefit from the substantial capital loss pool embedded in the fund structure. In 2020, the distribution is anticipated to be primarily return of capital (ROC) for tax purposes. The table below (figure 6) compares MPY's 10.9% return under different tax rates. **Receiving the distributions as ROC results in an additional 2% return on an after-tax basis vs dividends and 2.7% vs interest.**

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Figure 6: **For illustrative purposes only**

Pre-tax Return	Yield (tax treatment)	Total Return
10.9%	**5% (ROC*)**	**10.90%**
10.9%	5% (Dividend**)	8.95%
10.9%	5% (Interest***)	8.25%

*Cost base adjusted down by amount of the distribution received

**Assumes tax rate on dividend income of 39%

***Assumes tax rate on interest income of 53%

Source:, Mulvihill Capital Management, Bloomberg

Although the fund generated 10.9% return, the capital loss pool was essentially untouched in 2020. This is because the capital gains generated from options were mostly offset from capital losses taken on underlying equity positions. Therefore, there were very little excess capital gains income generated in the year that required the $90 million capital loss pool to be utilized and remains intact to be used for future years.

Final Thoughts

As we reflect on the last year, the fund and strategy accomplished the four main objectives we aim to provide investors.

1. Enhanced Yield
2. Tax-efficient Income
3. Capital Appreciation
4. Lower Volatility / Risk

The outlook across asset classes continues to look challenging for years to come. In a low return / low yield world the income you receive will become an increasingly important driver of the total return equation. Our firm's ability and experience to generate this income and distribute it on a tax-efficient basis leaves MPY well positioned to offer investors an attractive alternative to traditional equity exposure and a unique source of tax-efficient portfolio income.

We thank all of you for your continued support over the last year and are available if you would like to discuss MPY in more detail.

Disclosures