MULVIHILL PREMIUM YIELD

Q2 2023

5.8%

CURRENT YIELD

MONTHLY DISTRIBUTIONS

MPY HIGHLIGHTS

TOTAL DISTRIBUTIONS PAID SINCE INCEPTION $1.86

6.5% ANNUALIZED RETURN OVER PAST 3-YEARS

LOWER VOLATILITY & DRAWDOWNS

ROC DISTRIBUTIONS

The Mulvihill Premium Yield Fund "MPY" (Class I) returned -1.4% in the second quarter vs the benchmark return of 0.7%.

The fund was able to generate substantial premium from our option strategies to fund the three monthly distributions paid during the second quarter totaling $0.14. Since inception of the fund, MPY has returned 4.5% per annum, paid $1.86 in ROC distributions, and achieved these results with approximately half the volatility of Canadian Dividend strategies.

Market participants looked past concerns with the banking system that were prevalent at the end of Q1 and drove markets higher in the second quarter. The S&P 500 surged 8.7% sparked by the earnings beat from Nvidia that sent anything AI / tech related sharply higher. As Jason Trennert of Strategas succinctly put it "the optimistic case is that investors are discounting a revolutionary change in the economy that renders the old rules useless". Our best guess regarding AI is that like many revolutionary developments of the past, we are likely overestimating their potential in the near-term and underestimating their impact over the long-term. Closer to home, the S&P/TSX Index returned 1.2% in the quarter while the Bloomberg Canada Aggregate Bond Index returned -0.8%.

Inception 11/29/2019
Data is for Mulvihill Premium Yield Fund - Class I
Call Writing Benchmark = 50% S&P/TSX60 Covered Call Index (2% OTM), 50% CBOE S&P 500 BuyWrite Index (CAD)

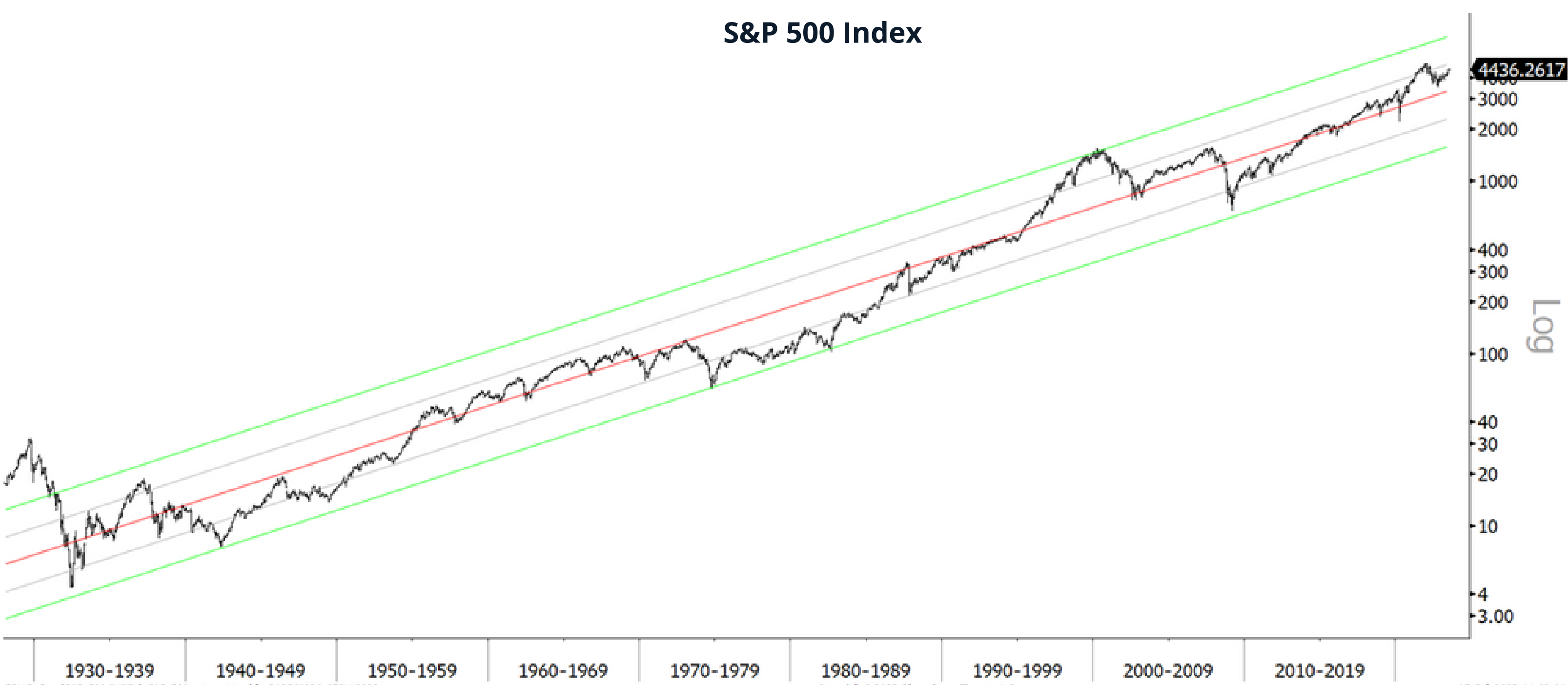
LIQUIDITY DRAIN

Portfolio Manager Commentary

Let's start with what we know, or at least what we think we know. Risk assets continued to rally in the second quarter, looking past many of the headwinds facing the economy and markets. The S&P/TSX60 Index has returned 5.7% YTD, lagging the 16.9% return for the S&P 500 Index. A more accurate depiction of how the average stock performed, the Equal Weight S&P 500 Index returned 7.0%, 4.6% when converted into Canadian dollars. Sector composition is the primary reason for this underperformance with the TSX60 having just a 7.3% allocation to Technology and 3.8% to Consumer Discretionary. Large weights in energy and banks detracted from performance in Canada.

At the risk of sounding too bearish, we want to start this quarterly update with a couple observations that could see equities continue to grind higher. While tight employment markets and extreme negative sentiment are often cited, we believe the most bullish catalyst for markets today remains price action or momentum. The S&P 500 is in a well defined long-term uptrend (see chart back to the Great Depression). With the top 10 stocks making up 32% of the index, the highest level ever, it will be difficult for a true correction to occur without the likes of Apple, Microsoft, Google, Amazon etc. leading on the downside, much like 2022. The problem is these companies also happen to have the highest quality balance sheets, potentially making them a safe haven for investors to hide in a slowing economic backdrop.

It has been a welcome development to see broader market participation in recent weeks to more cyclical areas of the market such as



Source: Bloomberg, Mulvihill Capital Management

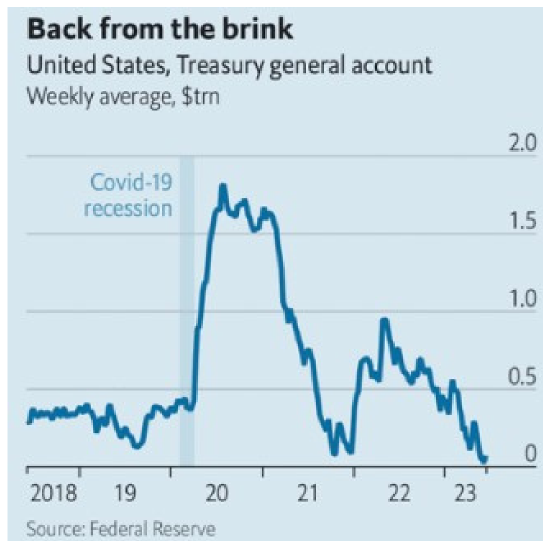
semiconductors, autos, and travel related stocks. However, the reality remains that stock market performance this year has come from a handful of mega-cap technology stocks. This is well known for the S&P 500, but even in Canada the 82% surge in Shopify Inc. accounted for 36% of the 5.7% move in the TSX.

On the other side of the ledger, classic defensive sectors like Utilities, down 5.7% for the year, continue to languish. It will be important to watch the relative performance of these defensive groups to get a sense of when the market begins to discount a slower economic backdrop.

Even in the face of this strong headline performance, we remain cautious on both the economy and stocks. Our focus on managing risk with a defensive portfolio posture worked well last year and has not worked so far in 2023. We are always willing to adjust our views and positioning as the data changes and our investment process dictates. However, we remain cautious today for many of the same reasons we held at the beginning of the year.

- **Deteriorating liquidity**
- **Inverted yield curve**
- **Soft economic data (leading indicators)**
- **Lagged effects of Fed tightening**
- **Declining corporate profits**
- **Sticky inflation**
- **Concentrated performance**
- **Rising correlations between stocks and bonds**

Some of these risks are obvious at this point, and that may be reason enough for markets to go higher. Seemingly every market prognosticator on CNBC mentions the inverted yield curve and tight monetary conditions. We hesitate to chase performance of a few large stocks in what continues to be a challenging macro landscape. While we won't go into detail on each of the risks listed, we do want to touch on liquidity and the yield curve heading into the back half of 2023.



Source: The Economist

DETERIORATING LIQUIDITY

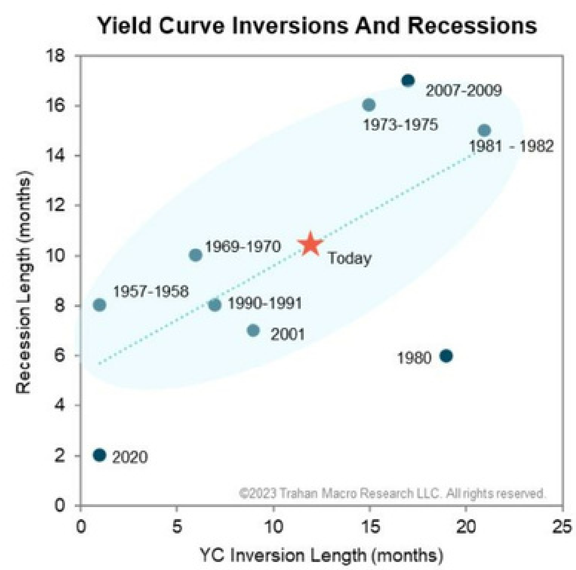
The U.S. debt ceiling and regional banking crisis in March led to a double dose of liquidity from monetary and fiscal stimulus into the system. These liquidity injections may be one of the primary reason stocks have rallied this year. The problem lies in that this liquidity is set to reverse course in a meaningful way. The banking crisis caused the Fed's balance sheet to surge by $300 Billion in March and the debt ceiling forced the Treasury to spend most of the cash it had on hand as the ability to issue bills was limited. The Treasury General account - the government's main account at the Federal Reserve - fell to just $23 Billion in June (see chart on previous page). For context, the Treasury aims to keep a balance of at least $500 Billion, enough to cover a weeks worth of cash outflows. This is problematic as the Treasury now needs to rebuild its buffer by issuing paper. Bank of America estimates the Treasury will issue more than $1 Trillion in bills over the next three months, 5x the average in a typical summer. Higher rates will be needed to entice the record $5.5 Trillion out of money-market instruments to absorb these new bills.

Combining this increased issuance with the Fed decreasing its bond holdings at an annual pace of $1 Trillion as Quantitative Tightening resumes, tighter bank lending standards, declining money supply (M2 growth negative YoY), and a Fed that continues to favour more rate hikes, liquidity appears to be a headwind for equity and fixed income markets going forward.

INVERTED YIELD CURVE

As the pending recession has taken longer to transpire than many expected, it has become popular to challenge the validity of the yield curve as a useful signal in today's markets for predicting recessions. As of the beginning of July, the yield curve (US 10 Yr -2 Yr) has been inverted for 12 consecutive months (third longest ever) and the current inversion of over 100 bps is extreme, relative to history.

Contrary to popular belief, the degree to which the curve is inverted and the severity of the ensuing recession has little statistical relationship. However, the **length of the inversion and length of the recession do have a positive relationship** as can be seen from the chart below. Historically, market rallies with an inverted curve have peaked at about 30% (1979 & 2007). The S&P500 has rallied 25% from it's October low leaving one to question how much more the market and economy can diverge, especially when being driven by a narrow group of stocks.



Source: Trahan Macro

The lagged effects of Fed policy, declining leading indicators such as the ISM Manufacturing Index and sticky inflation will impact the economy and corporate profits in the coming quarters. What we know for sure is the cost of capital for companies has increased drastically. The ability of companies to navigate these macro variables and maintain profit margins will ultimately decide if the yield curve will once again be proven right as a leading indicator of recessions or if in fact it is truly "different this time". We will err with history and the predictive power of the yield curve on this one.

We must remind investors that we are firm believers that public equities are the best asset class to own over almost any time period. Even when we are more negative on the market we do so from a position of being near fully invested at all times. While we currently think we may see heightened volatility, we remain 100% in equities and near fully invested, an allocation we firmly believe in over the long run.

Since inception, MPY has delivered total returns closer to stocks, with risk closer to fixed income investments. It continues to utilize the capital loss carryforwards to shelter capital gains income generated from our option strategies to provide tax-efficient ROC distributions to unitholders. Looking at the negative 5.3% return of bonds (see table below) since MPY was launched in November 2019 highlights the challenges for this asset class in a rising rate environment. While higher interest rates are tempting investors into fixed income, one cannot forget there is a capital appreciation / depreciation component to these investments. The capital losses incurred from rising rates can be enough to offset the income received, resulting in negative total return.

Enhanced Tax-efficient Yield:

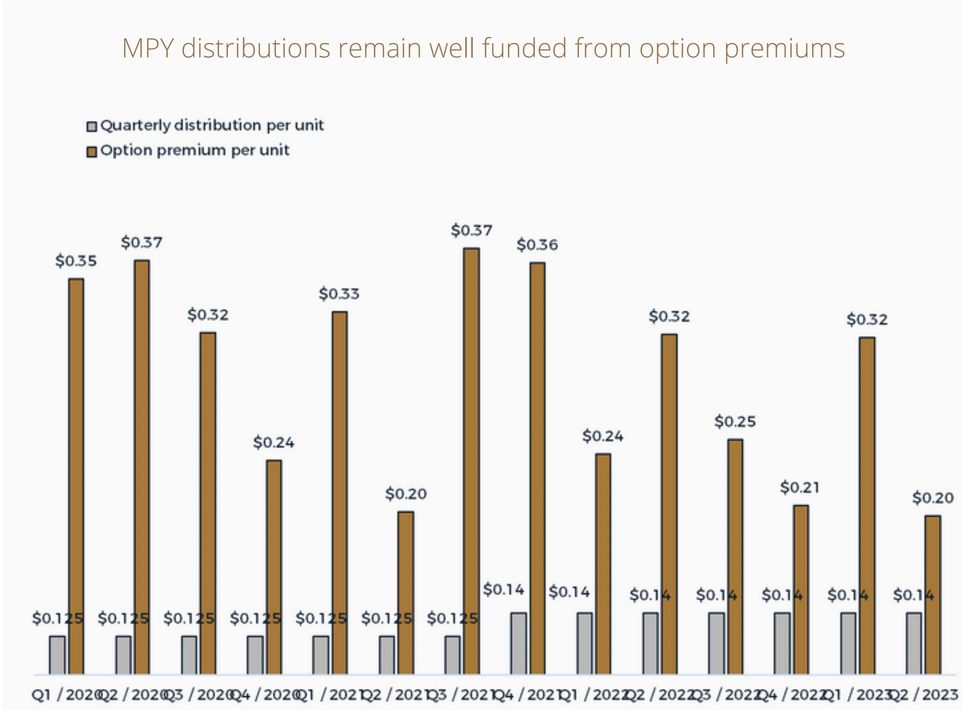
Delivering tax-efficient income to unitholders is the primary objective of MPY. Our goal is to achieve a minimum of 50bps in option premiums per month (6% per year) to fund the targeted 5% distribution per annum.

Market volatility ("VIX Index") traded in a wide range of 12.9 to 20.9 in the second quarter. Our option strategies were able to capitalize on this elevated volatility, generating 2.1% in option premiums in the quarter. Since inception, the fund has generated, on average, 0.9% per month, nearly double the 50bps objective.

In aggregate, MPY unitholders have received distributions totaling $1.86 per unit since inception. The income generated in the portfolio through our active option strategies have more than covered the distributions paid.

Performance (as of 6/30/2023)	Total Return	Volatility (Std Dev)	Yield	Tax Treatment	Sharpe Ratio
Mulvihill Premium Yield Fund	17.1%	11.1%	5.5%	ROC	.25
S&P/TSX Dividend Aristocrats Index	24.8%	19.0%	4.4%	Dividend	.25
Canada Aggregate Bond Index	-5.3%	6.3%	3.9%	Interest	-ve

Since Inception of MPY on 11/29/2019
Class I Total returns net of fees and expenses and annualized for periods longer than 1 year
Source: Bloomberg, Mulvihill Capital Management



Source: Bloomberg, Mulvihill Capital Management

Performance (as of 6/30/2023)	1 Yr	3 Yr	Since Inception
Mulvihill Premium Yield Fund	**1.8%**	**6.5%**	**4.5%**
Call Writing Benchmark**	**5.2%**	**9.5%**	**3.5%**

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Class I Total returns net of fees and expenses and annualized for periods longer than 1 year
**Call Writing Benchmark = 50% S&P/TSX60 Covered Call Index (2% OTM), 50% CBOE S&P 500 BuyWrite Index (CAD)
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