

# Lysander-Triasima All Country Long/Short Fund

## Third Quarter 2022 Commentary

### The economy

Elevated inflation is the dominant macroeconomic theme currently. It is the result of former easy monetary policies, a tight labour market and lingering pandemic disruptions to supply chains.

Central bankers have become steadfast in their desire to quell high inflation levels and are increasing overnight interest rates, even in Europe. Short and mid-term rates have risen alongside, and yield curves have become inverted in North America.

Economic growth is hindered by this high inflation and the rising rates. Households suffer from falling real disposable income while companies face higher costs and diminishing demand. The latter are now demonstrating prudence in their forward guidance. The economic slowdown has spread out and many countries are probably already in recession.

The tight labour market in North America is beginning to lead to higher unit labour costs. The current positive employment situation lags economic conditions, however, and may soon begin to reverse. Key signs include routine layoffs and hiring freezes. Elsewhere, in Europe and in emerging countries, the labour market is already softer.

The Russia-Ukraine conflict carries on. Its main effects are high energy prices in Europe and heightened geopolitical uncertainty. Meanwhile, the COVID pandemic has receded in the background, with a residual impact on some services industries.

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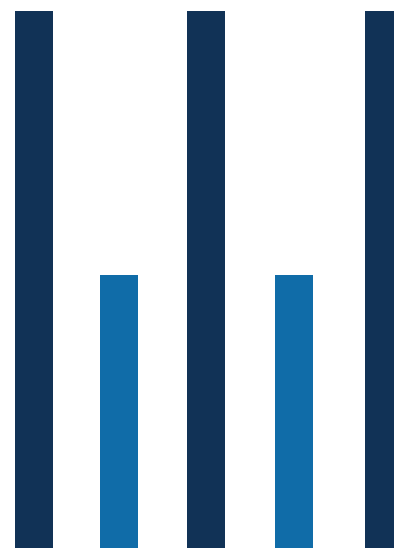
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### LYZ531F

Lysander-Triasima  
All Country Long/Short  
Equity Fund



## The world equity market

The MSCI All Country World Equity Index (CAD)<sup>1</sup> (the Index) had a 0.0% return this quarter.

Within the Index, sector returns were clustered, ranging from negative single digits for the interest-sensitive sectors such as Communication Services, Utilities, and Real Estate to low positive single digits. Energy was the best performing sector due to firm energy prices this year.

Regionally, emerging markets were negatively impacted by the strong American dollar, high interest rates, and global slowdown. Europe is hampered by the high cost of energy and rising inflation. The United States is the only major region posting a positive return, largely due to the strength of its economy and labour market, and because of its index composition. The latter has heavy weightings in the Health Care, Information Technology and Consumer sectors.

## Lysander-Triasima All Country Long/Short Equity Fund (the “Fund”)

The top and bottom contributors to absolute performance were a combination of Long and Short positions, which is typical in a sideways market.

Main security contributors to absolute performance:

Top Contributors	Bottom Contributors
Murphy USA	Foot Locker
H&R Block	MEG Energy
Unum Group	Verbio Vereingte BioEn (Short)
CF Industries Holdings	Polaris Renewable Energy
NIU Technologies (Short)	Chemtrade Logistics Inc. Fund

Long American equities, which accounted for two-thirds of the Fund’s portfolio, were the top contributing asset class due to a 7% average advance by these holdings. Short International equities also contributed nicely, dropping 10% on average. Long Canadian equities, representing one quarter of the Fund’s portfolio, lowered the absolute performance since they fell 4% on average.

To take advantage of the equity market downtrend so far in 2022, Short positions were kept near their regulatory maximum of 50% of the Fund’s portfolio asset value, averaging 45% of the Fund’s portfolio value during the quarter.

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<sup>1</sup>The Index is comprised of equity securities of large- and mid-cap companies from developed emerging markets.

During the quarter, the Fund's portfolio was moved further away from the resources and cyclical factors, but at a lesser pace than the previous quarter. To wit, the Materials sector was reduced, and the Health Care and Utilities sectors, added to. Seemingly contradictory were additions to the Industrials and Consumer Discretionary sectors, which would supposedly enhance the cyclical exposure. However, the companies chosen in these two sectors typically have stable and predictable businesses. Finally, some Consumer Staples companies facing falling demand for their consumer products were sold.

At the sector level, at quarter-end, the Fund's portfolio has large (over 8%) underweights relative to the Index sector weights for the Financials, Technology, and Communication Services sectors; the latter two even having a net short status. These positions contribute to the Fund's portfolio underexposure to the cyclical and growth factors.

### The Three-Pillar Approach™

On the **quantitative** side, combining the Long and Short positions, the Fund's portfolio has better parameters and factors exposure relative to the MSCI ACWI, with two exceptions. Profitability level is in line and revenue growth is lower.

The world equity market's negative **trend** continued this quarter. Defensive factors such as dividends, value, and profitability outperformed the growth and volatility factors.

The **fundamental** background to world equities deteriorated further due to elevated inflation and rising interest rates. Slowing economies and lower expected corporate earnings point to poor outlooks in the short term and for 2022.

# Lysander Funds Limited

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The MSCI All Country World (CAD) Index represents performance of the full opportunity set of large and mid-cap stocks across 23 developed and 24 emerging markets.

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