MULVIHILL PREMIUM YIELD

Q3 2023

6.0%

Current Yield

Monthly Distributions

MPY Highlights

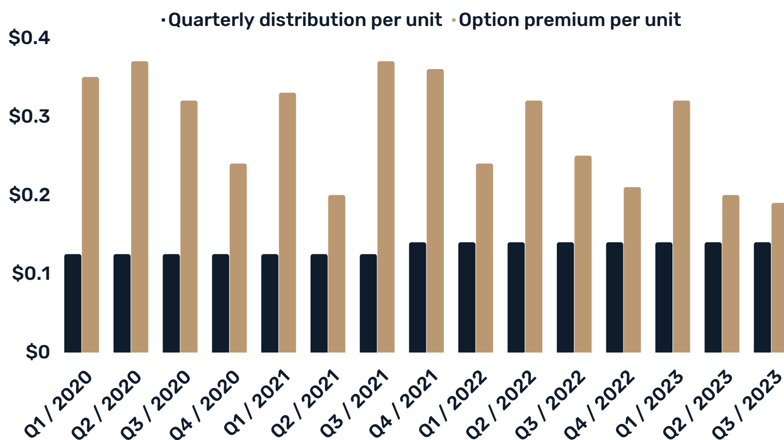
Total Distributions Paid Since Inception $2.00

Lower volatility & drawdowns

ROC Distributions

The Mulvihill Premium Yield Fund "MPY" was able to generate substantial premium from our option strategies to fund the three monthly distributions paid during the third quarter totaling $0.14. Since inception of the fund, MPY has paid $2.00 in ROC distributions, and achieved total returns closer to Canadian dividend strategies with volatility closer to the Canadian Aggregate Bond Index.

MPY distributions have been funded from option premiums generated



Distribution Details

Current Yield*	6.0%
Distribution Frequency	Monthly
Distribution Amount	$0.04667/ month
Cumulative Distributions Paid (SI*)	$2.00
Tax treatment	ROC*

MULVIHILL

as of September 30, 2023

*100% of 2020, 2021 and 2022 Class F & A distributions were ROC

SUPPLY & DEMAND

Portfolio Manager Commentary

The third quarter of 2023 was a challenge for markets and the economy as the transition from free money to higher real interest rates continued. After exhibiting strength in the first half of 2023, equity markets took a breather as the prospect of high inflation from increased energy and food prices reinforced the idea of higher for longer interest rates. With this backdrop, equity markets pulled back with the S&P/TSX Composite Index declining 2.2% and the S&P 500 Index down 3.3%.

Although both the Bank of Canada and U.S. Federal reserve slowed the increase in the overnight bank rate to a quarter point (25 basis points) this quarter, 10-year bond yields in both countries rose approximately 75 basis points to levels not seen since 2007 on concerns both central banks will need to raise overnight rates again. With the sharp backup in yields, the Bloomberg Canada aggregate bond index declined with a total return of negative 3.8%. Bonds once again didn't provide the diversification benefit they have historically provided against equity market declines.

Crude oil prices, and the energy sector in general, was the one bright spot during the third quarter, as the WTI Spot price rose 28.5% to end the period at $90.79 per barrel. On a sector basis, nine of eleven sectors in both Canada and U.S. posted losses. Energy was the best performing sector generating a total return of 14.5% in Canada and 12.2% in the U.S. Meanwhile, interest rate sensitive and defensive sectors led the declines with the Telecommunication sector in Canada down 12.6% and the Utilities sector in the U.S. down 9.3%.

Given all the complexities in the world today, the current market narrative remains somewhat simplistic.

Higher Yields = Negative for Stocks & Bonds
Lower Yields = Positive for Stocks & Bonds

Given this backdrop, we believe the biggest risk to both asset classes for the foreseeable future will be a reacceleration in the CPI data. With the FED hyper focused on inflation, an upward surprise in CPI will ultimately keep the FED in tightening mode, and continue to drain capital from risk assets into the safety of T-bills.

Why inflation is set to go higher

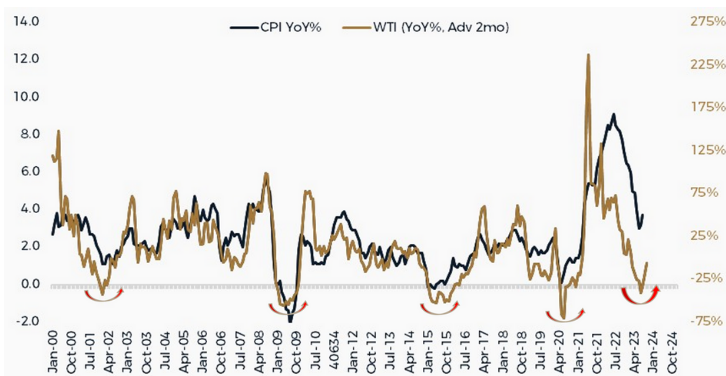
There are a couple of dynamics at play that may see CPI surprise to the upside in the coming months. First and foremost are energy prices.

While the FED celebrates getting inflation down to 3%, one must not kid themselves as to why this decline occurred. In a highly politicised move by the Biden Administration to control inflation in a mid-term election year, they turned to one of the only levers they could pull on, flooding the oil market with supply by depleting the Strategic Petroleum Reserve "SPR" to embarrassingly low levels. At

Source: Bloomberg, Mulvihill Capital Management

the same time, OPEC+ was increasing production causing WTI prices to drop from $120/barrel in March 2022 to as low as $65/ barrel in March 2023. Unfortunately for the FED, the SPR now sits at just 17 days of reserves and cannot be depleted further. At the same time OPEC+ has cut production creating a tight market for crude. The geo-political situation in the Middle East and the unpredictable policies of Putin are also pointing to higher crude prices. Ultimately, as can be seen in the chart below, higher oil prices result in higher inflation. If the FED's sole objective remains to keep inflation down, they will need to keep hiking.

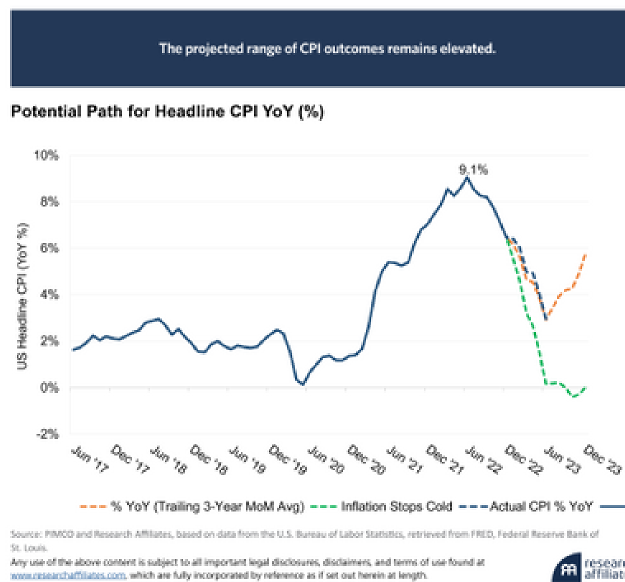
Rise in Oil suggesting CPI to move higher



Another factor working against inflation is math. In a recent article by Rob Arnott at Research Affiliates titled "Inflation: Don't Pop the Champagne (Yet)" the author highlights the "base effect" occurring in the CPI data into year end. Before we get into the meat of his analysis, I will give you the Coles Notes. Most of the surge in inflation occurred in the front half of 2022. Inflation in the back half of 2022 was actually fairly low. So as we head into the end of 2023, we are dropping low values and adding higher CPI numbers, also known as the base effect.

"Many companies invest substantial resources trying to gauge what the future months' inflation reports will look like, and then pay little or no attention to the months that they will replace. We never know with any precision what the new monthly inflation will be, and yet we have an exact fix on the month that it will replace."

He goes on to show that if we assume an average of 20- 40 basis points of inflation each month through year-end, then we should see the year-over-year inflation rise to somewhere between 4% and 5½% by year-end. Given how markets have reacted to recent CPI reports, CPI with a 5 handle would likely spook the FED and markets.

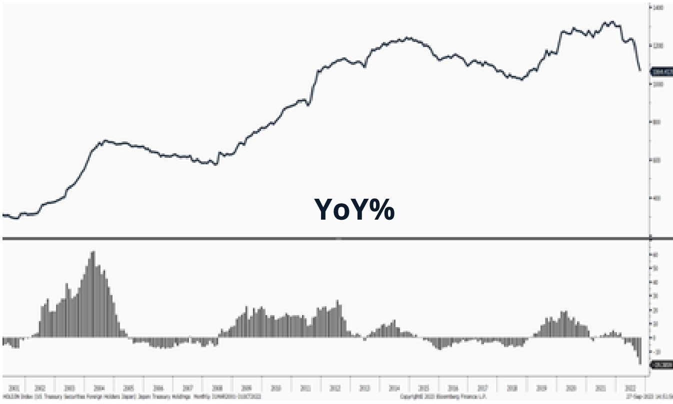


Why Yields are going higher

As we write, US 10 year yields hover near 5%, a level not seen since 2007. Several factors are contributing to their accent including FED policy and higher CPI. However, the most prominent reason comes back to basic economics 101, supply and demand.

In our Q2 letter we discussed the challenges facing the US Treasury as they depleted their coffers during the US debt ceiling. To replenish, they are having to issue new paper into the market. The problem is no one wants to buy it. The largest purchasers, historically, including the Federal Reserve (now doing QT) and Foreigners are absent from the market (see chart below). Large Speculators / Hedge Funds are the most short they have been on record. As this supply floods the markets higher yields are needed to entice buyers. Given the political buffoonery happening in the US on both sides of the aisle and ever increasing budget deficits, it is hard to blame buyers for demanding this extra compensation.

Treasury Holdings - Japan

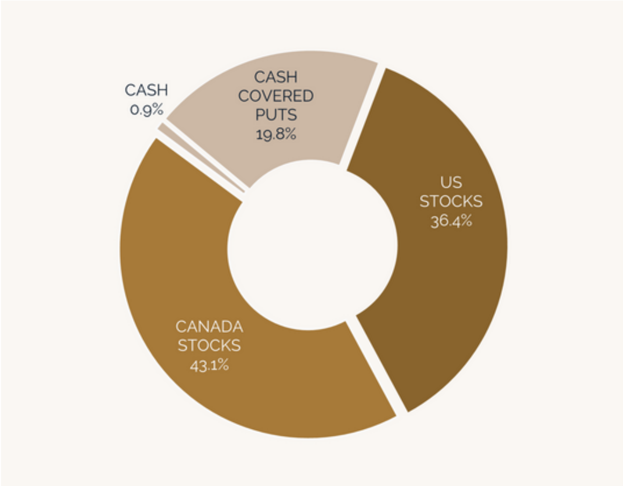


Portfolio Strategy

Where does that leave us in the strategy? As we often do, we try and adapt with the market conditions. What has significantly changed recently? The return received on cash. From an option writing standpoint, this makes put writing vs call writing more attractive for the simple reason when we write a put we post cash as collateral. That cash is all of a sudden earning 5% annually. Therefore, if we write 50% of the portfolio we are earning 2.5% in income, in addition to the put premium received from the options. Given the higher volatility received from writing puts vs calls (option SKEW) we are able to write these options further OTM, or in layman's terms with more downside protection.

MPY Allocation

(as of September 30, 2023)



At the end of Q3, the portfolio had 20% subject to put writing. As we move forward into 2024, we expect this value to consistently be in the 30-50% range on a monthly basis as put writing becomes a large part of the overall strategy.

We 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 8.7% 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 distribution per annum.

Market volatility ("VIX Index") traded in a wide range of 12.8 to 18.9 in the third quarter. Our option strategies were able to capitalize on this elevated volatility, generating 1.9% in option premiums in the quarter. Since inception, the fund has generated, on average, 0.9% per month, nearly double the 50bps objective.

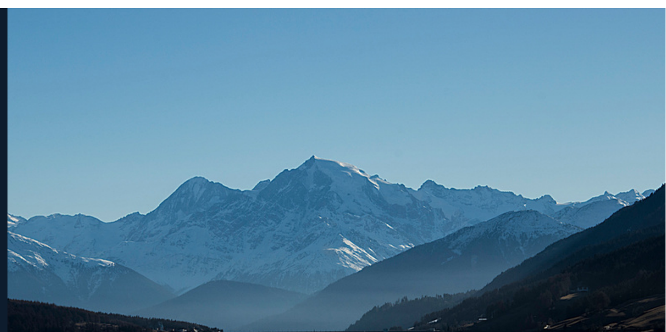
In aggregate, MPY unitholders have received distributions totaling $2.00 per unit since inception. The income generated in the portfolio through our active option strategies have more than covered the distributions paid.

Performance (as of 9/30/2023)	Total Return	Volatility (Std Dev)	Yield	Tax Treatment	Sharpe Ratio
Mulvihill Premium Yield Fund	13.3%	11.4%	6.0%	ROC	.16
S&P/TSX Dividend Aristocrats Index	19.5%	18.5%	4.8%	Dividend	.18
Canada Aggregate Bond Index	-8.7%	6.2%	4.9%	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

Performance (as of 9/30/2023)	1 Yr	3 Yr	Since Inception
Mulvihill Premium Yield Fund	-0.8%	2.7%	3.3%
Call Writing Benchmark**	6.8%	7.2%	2.8%

Inception 11/29/2019
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)
Source: Bloomberg, Mulvihill Capital Management



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