PURPOSE BEHAVIOURAL OPPORTUNITIES FUND – TRADE EXAMPLES

QUICK FACTS

ETF CLASS	BHAV
MGMT FEE	1.00%
CLASS F	RAM361
MGMT FEE	1.00%
CLASS A	RAM360
MGMT FEE	2.00%
PERFORMANCE FEE	10%*

*On the increase in the NAV in a year when performance of the Fund exceeds the positive return of the benchmark

MARCH 2019

This update is designed to showcase a select number of strategies we implement in Purpose Behavioural Opportunities Fund. This includes how the strategy targets what we believe to be opportunities in the market caused by investors' behavioural biases, as well as how we implement the strategy to limit our own behavioural biases. The following are recent examples traded in the Fund.

Important note: This report is not for broad distribution, as it discusses existing trades we have on. These are not recommendations to buy or sell securities, nor is there any notification when we adjust stops or adjust these positions in the Fund.

EMOTIONAL CASCADE

On spikes in news, investors often overreact, losing sight of the long term. This is especially evident when information is plentiful and one-sided over a number of trading sessions. This overreaction to abundant and persistent news skews the risk/return trade-off, creating an opportunity.

This is a long and short strategy. Though the price change is usually sudden and sizable, the surge often erodes over time as the news flow dries up.

There are many key factors that must be considered when implementing this strategy. As the market is emotional, often ignoring fundamentals, the biggest question is 'how long this opportunity will last?' We have developed different tools that help measure when the emotional overreaction is beginning to lose momentum in the initial direction. In addition, we use strict stop-loss levels to help limit downside risk.

SUBADVISOR: RICHARDSON GMP / CONNECTED WEALTH®

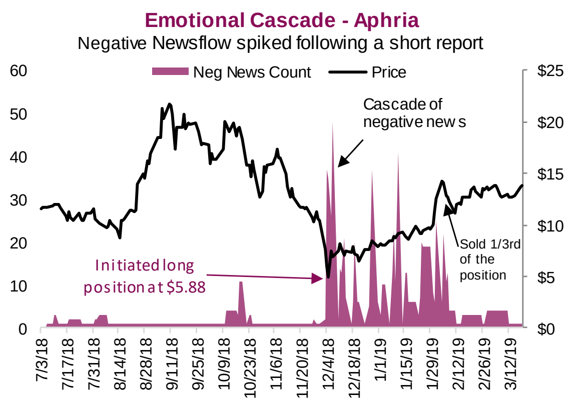
At Connected Wealth, Craig Basinger and his team manage upwards of $600 million, with a focus on long term wealth building strategies. The team consists of three portfolio managers and two analysts, headed by Mr. Basinger, who has worked in investment management since 1995. Their guiding principles are transparency, cost efficiency and connectedness.

Targeted Behavioural Bias

Availability bias causes investors to focus more on recent or widely available information and lose sight of the longer-term picture and fundamentals. This becomes especially acute when the quantity of new information spikes due to some news or critical event. This cascading new information can cause an asset price to dramatically overreact, thus presenting an opportunity to be a contrarian.

Emotional Cascade trade – Aphria

Aphria had been underperforming the Canadian healthcare sector during the market correction in the fourth quarter of 2018. Prices then fell off the cliff following a report issued by Quintessential Capital and Hindenburg Research on December 3 which recommended short-selling the stock. The report questioned the company's many international acquisitions. The initial reaction resulted the stock price falling by 54% in just three trading days. The chart below outlines the stock price and the negative news flow measured by number of negative stories. The spike in negative sentiment reached unprecedented levels for the stock, which led us to initiate a new position at a cost of $5.88 per share.



Clearly, the move was an overreaction as investors lost sight of the long-term opportunity. The sudden and sizable price change was just the type of set up we are looking for in the emotional cascade strategy. The stock slowly started to recover, aided by a take-over bid by Green Growth Brands. The unsolicited bid provided a near-term base, which gave the company time to vigilantly refute many of the claims in the short report.

With the stock up over 200%, we sold just over a third of the position to lock in profits and cover most of the initial cost of the position. As the stock has continued to appreciate, we have fastidiously moved our trailing stop upward to manage risk exposure.

EARNINGS OVERREACTION

We believe the market often overreacts to earnings results in the short term. A positive or negative earnings surprise can often elicit a dramatic move in the share price and a spike in volume. We have been active with this strategy lately; the fourth-quarter-earnings season created many opportunities.

Targeted behavioural bias

Availability bias: making a judgement about the likelihood of an event based on how easily an example, instance or case comes to mind.

Recency bias: the inclination to use our recent experience as the baseline for what will happen in the future.

Given the large amount of information that is released around earnings, surprises can create an emotionally charged environment that often causes behavioural biases to get the better of investors. Availability bias causes investors to overweight the impact of the most readily available news. Higher-quality companies that suffer a significant price drop following a disappointing earnings report tend to recover the loss, while lower-quality companies that enjoy a price jump on positive earnings don't tend to hold onto these gains for long.

Earnings overreaction strategy

Our quantitative model highlights companies in Canada and the US that experience a material price change following the release of earnings results, which is largely a function of the company's historical volatility.

We look at several additional factors that have historically indicated whether the stock price move is an overreaction or not. Some of these include the quality of the company, whether it is in an existing trend ahead of earnings.

Regarding risk analysis, we look at how adding the trade could change the overall portfolio's allocation to each strategy, sector exposure, geographic exposure, etc. This is also incorporated into sizing the positions.

As noted in our strategy overview, lower-quality companies tend to experience a price jump on decent earnings; however, they typically don't tend to hold onto these gains. **These are prime short-selling opportunities.**

Earnings Overreaction trade – Electronic Arts

Electronic Arts' troubles began long before the market correction of 2018. The stock peaked in July, and proceeded to fall over 50%. A combination of Fortnite envy and disappointing headline game sales did not appease investors. The stock bottomed with the rest of the market in December and then appeared to begin its long recovery. Disappointing earnings released on February 6 saw the stock price fall close to the lows of December, a good support level in our opinion. The Fund initiated a long position, buying at $78.90 per share. What most investors failed to realize during the initial overreaction was the surprise announcement of a new game being released that week, Apex Legends, which was designed as a direct Fortnite competitor. Within days, the stock surged to levels not seen in months following impressive reviews and social interaction metrics. The Fund sold a third of its position after moving through our initial target and we raised our stop-loss level. It seemed the renewed optimism was rather excessive and caused an overreaction in the other direction and as prices retreated. We exited the position at our stop level.

PURPOSE INVESTMENTS

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UNLOVED TO LESS UNLOVED

Herd mentality is a behavioural bias that is hard-coded in our DNA. We tend to feel more comfortable with the consensus. When it comes to analyst ratings, investors generally like to buy, own or add to companies that have a higher percentage of buy ratings. Conversely, companies with very few buy ratings over an extended period of time are often forgotten or neglected. The unloved to less unloved strategy attempts to capture unloved companies that start to see analyst upgrades. If the early upgrades are from more forward-looking analysts, more could follow and create a recovery in the share price.

Targeted behavioural bias

Herd instinct: a mentality characterized by a lack of individual decision-making or thoughtfulness, causing people to think and act in the same way as the majority of those around them. In finance, herd instinct relates to instances in which individuals gravitate to the same or similar investments

Confirmation bias: the tendency to search for, interpret, favour and recall information in a way that confirms your pre-existing views.

The unloved to less unloved strategy incorporates behavioural biases and changes in behaviour. The herd suffers from confirmation bias due to the analyst recommendations and reports. This causes most investors to neglect the 'unloved companies,' creating a potentially attractive entry point. Also, once analysts start upgrading, they too often illicit herd behaviour as additional upgrades often follow.

Unloved to less unloved strategy

Our quantitative model highlights companies in Canada and the US that experience an upgrade, lifting the percentage of buy recommendations above a certain threshold (unloved to being less unloved).

We look for a number of additional factors that have historically improved the success of this strategy. Some of these include:

- How long the company was unloved
- Whether or not the share price declined during the unloved phase
- Whether volume was lower
- The current trend
- Estimate revisions (have they turned?)
- Default probability (potential value trap)
- An analyst upgrade from a fundamental shop
- Insider trading activity

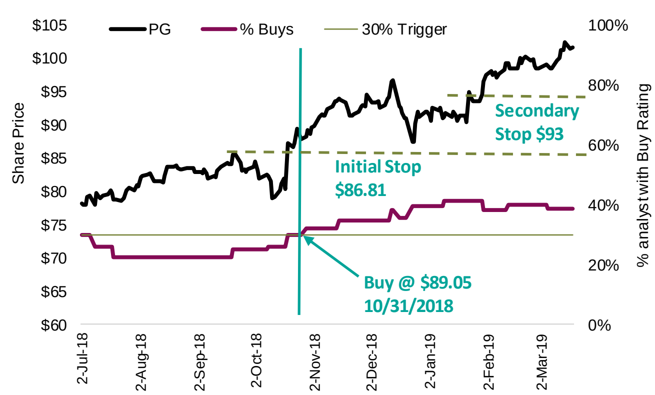
Regarding risk analysis, we look at how adding the trade could change the overall portfolio's allocation to each strategy, sector exposure, geographic exposure, etc. This is also incorporated into sizing the positions.

Unloved to less unloved trade – P&G

Procter & Gamble is a stalwart blue-chip consumer staple name. It had a rough start to 2018, falling 23% in the first five months of trading. As prices fell and sentiment deteriorated, it also became unloved by the analyst community, with just 22% of analysts maintaining a buy rating. The stock began to recover mid-year and, as is often the case, the cascade of upgrades began, pushing the buy ratio beyond the 30% threshold indicated in the chart below. The Fund initiated a long position on October 31 at a price of $89.08 per share.

The stock benefited from being a prime risk-off benefactor during the correction and the multiple upgrades underscores that the initial pessimism endured throughout most of last year was largely unwarranted on a fundamental basis. In fact, the stock is now trading at an all-time high. The stock reached our initial target; however, we continue to hold while raising our initial stop to ensure a profitable trade. There is still potential for further upgrades from the analyst community, with just 40% of analysts recommending the stock as a'buy.

Unloved to less Unloved - Procter & Gamble



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All charts sourced by Bloomberg.

**The Fund will pay the Manager an incentive fee, annually based on performance as at December 31, subject to all applicable taxes, equal to a percentage of the daily net asset value of the applicable Securities of the Fund. Such percentage will be equal to 10% of the difference by which the return in the net asset value of the Fund from January 1 to December 31 exceeds the percentage return of the Fund's benchmark, which shall be a 50/50 S&P/TSX Composite Index/S&P 500 Index (in Canadian dollars) blended index. The incentive fee will be accrued on a daily basis and payable at the end of the year based on performance against the benchmark as at December 31 and subject to the following: if the performance of a series or class, as applicable, of the Fund in any year, at December 31, is less than the performance of the benchmark (the "Deficiency"), then no incentive fee will be payable in any subsequent year until the performance of the applicable series or class of the Fund, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the Deficiency. The Manager may share this incentive fee with a Portfolio Advisor of a Fund in accordance with the agreement between these parties.*

Redwood Asset Management Inc. amalgamated with its parent company, Purpose Investments Inc., on March 31, 2018. Purpose Investments is a different kind of investment company, with an unrelenting focus on customer-centric innovation, and offers a range of managed and quantitative investment products designed to meet a specific goal in building resilient portfolios for clients.