

FUND COMMENTARY

# Purpose Behavioural Opportunities Fund

## FUND DETAILS

<b>ETF TICKER</b> MGMT FEES	<b>BHAV</b> 0.75%
<b>SERIES F</b> MGMT FEES	<b>PFC2801</b> 0.75%
<b>SERIES A</b> MGMT FEES	<b>PFC2800</b> 1.75%

Inception date: JAN 17, 2018

DISTRIBUTION FREQUENCY  
**Annual, if any**

FUND STRUCTURE  
**Corporate Class**

**Netflix was added to the fund last April on an earnings miss and has surged the past few months thanks in no small part to its new hit Squid Game.**

## FUND MANAGER



**Craig Basinger**

CHIEF MARKET STRATEGIST  
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## FUND OVERVIEW

Purpose Behavioural Opportunities Fund, the first of its kind in Canada, focuses on profiting from other investors' emotional mistakes. We all make mistakes when investing, whether it's overreacting to news, becoming anchored in our opinions, or framing our decisions based on what we originally paid — the list goes on. These mistakes detract from long-term investment performance and, under certain circumstances, can lead to mis-priced assets or stocks. BHAV uses numerous strategies, each designed to profit from potentially mis-priced assets/stocks caused by investors' emotions or behavioural biases.

## PERFORMANCE AND MARKET ANALYSIS

The fund rose by 1.36% in September, bringing the one-year performance to 26.06%. Market returns in October were exceptionally strong on the surface; however, most of the heavy lifting was very concentrated. For the S&P 500, the technology sector has a 27% weighting and was the largest contributor responsible for a third of the monthly returns. The top five stocks last month within the index drove nearly half of the returns, they were Microsoft, Tesla, Apple, Nvidia, and Alphabet. The Purpose Behavioural Opportunities fund is a differentiated strategy that often looks nothing like the S&P

## FUND PERFORMANCE

AS OF OCT 31, 2021

PURPOSE TACTICAL ASSET ALLOCATION FUND	1 MONTH	3 MONTHS	6 MONTHS	YTD	1 YEAR	2 YEARS	3 YEARS	SINCE INCEPTION
SERIES A	1.27%	-1.24%	1.59%	9.16%	24.72%	8.46%	6.98%	4.73%
SERIES F	1.36%	-0.98%	2.14%	10.14%	26.06%	9.62%	8.20%	5.92%

Source: Morningstar

500 or the S&P/TSX Composite. Our focus is simply on finding mispriced assets due to investor over or under reactions. October was a busy month within the fund, with earnings season in full swing.

New additions within our earnings overreaction strategy included Covenant Logistics, Quest Diagnostics, Ebay, Intel, Texas Instruments and Methanex. What they all have in common was a material earnings miss and a sharp pullback. With markets trending higher, quality companies that experience an earnings miss are often put in the penalty box, but the penalty often does not last very long. We have found an asymmetric regression back to the mean as a function of company quality. Higher quality companies that suffer a significant price drop on bad earnings, tend to recover the loss. In the case of Methanex the stock dropped as much as 6% the day after the earnings announcement but finished the day down just 1%. Not every company reverses course this quickly, but we continue to monitor names in this strategy to ensure that they do not experience

further price pressure. Our strict risk management framework ensures that we exit positions quickly they are not working out.

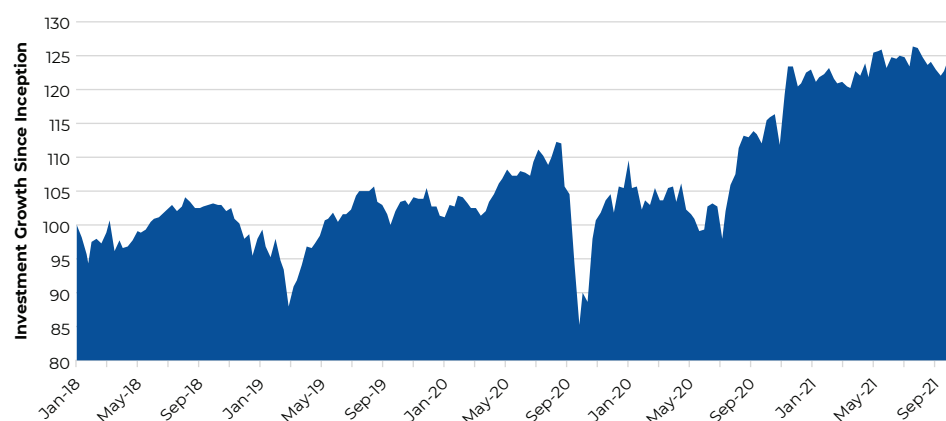
Within the fund, overweight exposure in Industrials was the largest contributor. Generac Holdings was the biggest contributor to our fund's performance in October, followed by Canadian National Railway, and Netflix. Netflix was added to the fund last April on an earnings miss and has surged the past few months

thanks in no small part to its new hit Squid Game.

Earnings season has thus far been better than expected, with over 70% of companies on the Russell 3000 index beating earnings estimates. Price reaction has in aggregate been mostly positive but there has been no shortage of opportunities to monitor. The cash balance within the fund has drawn down to under 10%, but the fund remains well positioned to continue to deploy capital on mispriced assets.

## INVESTMENT GROWTH

AS OF OCT 31, 2021



## THE STRATEGIES

STRATEGY	BEHAVIOURAL BIAS	DESCRIPTION
Unloved to Less Unloved	Unloved to Less Unloved	Unloved companies – those with few analyst BUY ratings – tend to be neglected and beaten down. This long-only strategy is triggered by an unloved company receiving some upgrades and becoming less unloved.
Earnings Overreaction	Earnings Overreaction	Availability bias causes investors to overreact to earnings in the short term. Asymmetric recovery found as higher-quality companies tend to recover from misses relatively quickly while lower-quality companies give back gains from positive surprises. This is a long/short strategy.
Emotional Cascade	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, skewing the risk/return trade-off and creating an opportunity. This is a long/short strategy.
Indexing Bias	Indexing Bias	While somewhat counterintuitive, once a company is added to an index, it often underperforms for a period. Conversely, those removed often partially recover. This is a long/short strategy.
Crowded Trades	Crowded Trades	Contrarian – when everyone is betting on one outcome, it is often the opposite that occurs. We use non-commercial open futures contracts to measure. As contrarian strategies often take time, we tend to use longer-dated options.
Neglect	Neglect	Small spin-offs are often discarded by portfolio managers as the positions are too small to matter. This creates temporary selling pressure, which this strategy takes advantage of. This is usually a long strategy.
Herd Hedge	Herd Hedge	When market sentiment is skewed in one direction and demonstrates irrational exuberance or pessimism, we take a contrarian position in the options market.

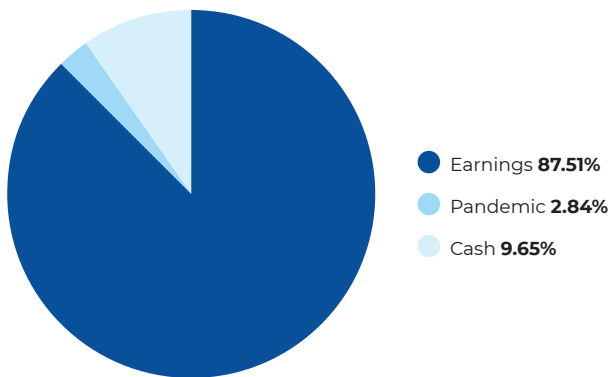
**TOP 10 HOLDINGS**

AS OF OCT 31, 2021

NAME	WEIGHT
CANADIAN NATL RAILWAY CO	5.4%
NETFLIX INC	5.2%
WELLS FARGO & CO	5.1%
KINAXIS INC	4.6%
SNC-LAVALIN GROUP INC	4.6%
FREEMPORT-MCMORAN INC	4.2%
PAYCHEX INC	4.1%
GENERAC HOLDINGS INC	4.0%
RUSSEL METALS INC	4.0%
CELESTICA INC	3.9%

**STRATEGY ALLOCATION**

AS OF OCT 31, 2021

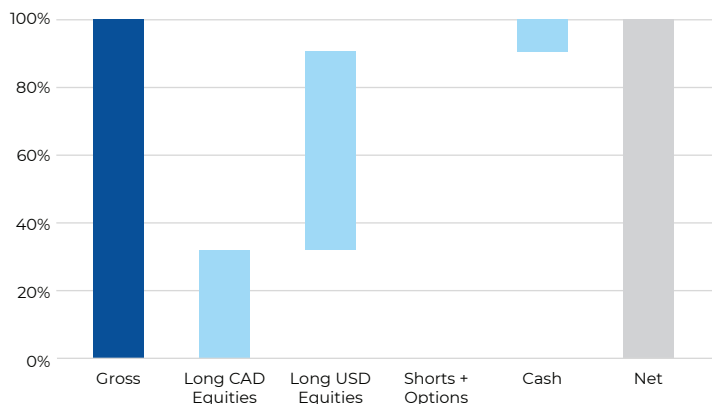


**FUND OBJECTIVES**

- Actively profiting from market inefficiencies and investors' predictable, emotional mistakes
- Long-term capital appreciation and diversification
- Exposure to Canadian and U.S. equity markets

**PORTFOLIO EXPOSURE**

AS OF OCT 31, 2021



**RISK RATING**



<sup>1</sup>Contribution to fund return for the period is calculated as the 1 month total return for the ETF Class of the Fund multiplied by the sector/ security's average weight of the Fund's net asset value.

<sup>2</sup> MSCI EAFE sector indices. All data sourced from Bloomberg and Purpose Investments, unless otherwise noted.

Commissions, trailing commissions, management fees and expenses all may be associated with investment fund investments. The prospectus contains important detailed information about the investment fund. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share/unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. As with any investment, there are risks to investing in investment funds. There is no assurance that any fund will achieve its investment objective, and its net asset value, yield, and investment return will fluctuate from time to time with market conditions. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. The opinions expressed are provided by the portfolio manager responsible for the management of the Fund's investment portfolio, as specified in the Fund's prospectus. Unless otherwise stated, the source for data cited in any commentary is the portfolio manager. Nothing in any commentary should be considered a recommendation to buy or sell a particular security. The Fund may sell these securities at any time, or purchase securities that have previously been sold. The securities may increase or decrease in value after the date hereof, and the Fund may accordingly gain or lose money on the investment in the securities. The statements by the portfolio managers in their commentaries are intended to illustrate their approach in managing the funds, and do not necessarily reflect the views of Purpose Investments Inc.

