Cidel Asset Management Inc.

Cidel Credit Opportunities Fund Q&A

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This document provides answers to Frequently Asked Questions relating to the Cidel Credit Opportunities Fund (the "Fund").

Investment Strategy & Current Opportunity

1. Why is the opportunity set for active credit so attractive currently?

After a multi-year period of perceived low risk in investment markets, the coronavirus pandemic that began in late 2019 and proliferated in Q1 2020 has had a profound impact on the global economy and financial markets, which could lead to a generational opportunity in credit. Credit markets have declined broadly, with many bonds trading materially lower often without distinction between their relative business quality and balance sheet quality - this is what we mean by dislocation (i.e. both the good and bad bonds are simultaneously cheap). Like most asset classes, credit can exhibit a cyclical behaviour in its returns over time. History shows that in the wake of a credit cycle downturn (like the one we are experiencing now), alternative credit strategies (such as distressed and long/short credit) have offered strong prospective returns, given the aforementioned opportunities that tend to arise in these periods.[i]

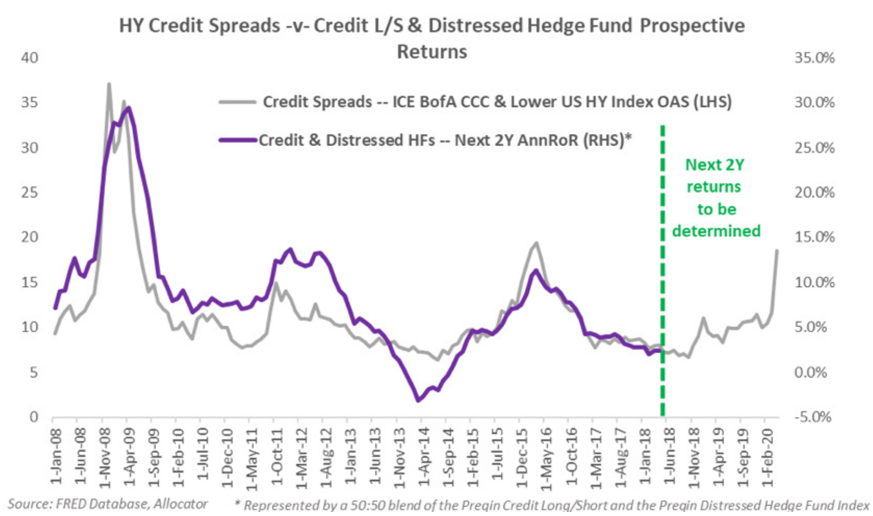

Chart Commentary: The 'grey' line shows the historical level of credit spreads, which tend to increase during times of market stress. Meanwhile, the 'purple' line shows the 2-year prospective (forward-looking) returns of alternative credit and distressed hedge fund strategies. The pattern shows that when credit spreads increase, so do the return prospects for alternative credit strategies.[ii]

2. How does bankruptcy create value for creditors or bondholders?

There is risk in the bonds of companies that declare bankruptcy, but far lower risk than other subordinated portions of the capital structure (i.e. equity). This risk is elevated when one owns a passive investment, such as an ETF, which holds bonds of all companies and are often weighted towards those that are the most indebted – not necessarily the most credit-worthy. Conversely, active hedge fund strategies endeavor to buy bonds that they believe are 'cheap' in an absolute sense and are priced below their perceived intrinsic value. In bankruptcy, the balance of power shifts from the subordinated parts of the capital structure to the more senior bondholders. To explain further, distressed credit hedge funds will purchase bonds and loans at a significant discount to par, with the goal of taking control of the assets in the bankruptcy process in order to achieve a recovery value well in excess of their cost basis. To use round numbers for perspective, the par value may be $100, but during market distress, there may be the ability for hedge funds to buy that bond at $40 and, through the bankruptcy process, they may be able to recover $80 which implies a 100% return on that particular investment. They follow the old adage of: "buy low, sell high".

3. What are the main risks one should consider when investing in this fund?

As with any investment this is an important question to ask and explore since there are always risks. With this strategy, the key risks are 3-fold: i) Manager Risk, ii) Credit Risk, and iii) Performance/Volatility Risk.

- Manager Risk – There is always the risk that we select managers who underperform. While this risk certainly exists, we seek to mitigate it by selecting high quality managers, with significant experience and those that pass our strict and thorough due diligence process. Moreover, the diversification across 7 managers in the portfolio is another mitigating factor.

- Credit Risk – While we believe the majority of the credit spread widening is behind us, we cannot claim to have a crystal ball to call the bottom. This strategy will have a long biased exposure tilt to credit risk, albeit in a moderate, risk controlled and hedged fashion. We seek to mitigate this by diversifying across managers that have different areas of focus (i.e. US, Europe, High Yield Municipal Bonds, Distressed, Convertible Bonds) and different investment styles (i.e. directional, relative value, event driven, arbitrage).

- Performance/Volatility Risk – While we cannot rely solely on past returns, we can use them as a guide to frame our expectations. The hypothetical past results based on the blended actual historical performance of the proposed managers produced a long term (since 2008) annualized rate of return in the high-single digits with a mid-single digit level volatility (as measured by the annualized standard deviation).[i] Given the current opportunity set is quite attractive, we are anticipating higher than average returns than our base case assumption over the medium term.

4. What is Cidel's experience investing in these types of managers and/or these specific managers directly?

Cidel, as a firm, is a seasoned and long-term allocator in the credit space with more than 20 years of experience investing in these types of strategies. Moreover, we are already actively invested with each of these proposed managers and all are already approved on our 'buy list'. As a firm, we have seen the benefits of including alternative credit in portfolios over time and especially in the aftermath of prior market cycle downturns such as the Global Financial Crisis in 2008, the European Debt Crisis in 2011, and the Energy Crisis in 2015-16.

5. Given the markets have rallied since March, did we miss the opportunity described above?

In short, no, we don't believe so. It might be the case that some of the 'easy money' has already been captured from a rebound in popular indices that can be accessed by passive mutual fund and ETF investors. We would argue, though, that the rest of the opportunity still largely lies ahead for active managers that can go long and short to benefit from dispersion amongst various credits and those that can get involved in distressed situations – which passive funds cannot access. Much of the recovery in credit has been on the higher quality end of the credit spectrum and mainly in the investment grade space; some of these companies might be short candidates and we have seen an uptick in downgrades (there have been 24 'fallen angels' so far in 2020, per the S&P, with 111 more companies on negative CreditWatch at risk of downgrade – both record highs). Meanwhile, high yield markets remain rich with opportunity as they continue to face stress as indicated by persistently high credit spreads (i.e. the ICE BofA CCC & Lower US High Yield Index Option-Adjusted Spread as of May 27th, 2020 remains elevated at ~17% versus an average spread of ~10% since 2010 and only slightly off its recent March peak of ~19%).

6. Is this investment considered 'counter-cyclical' (i.e. negatively correlated) to equity markets?

While the strategy is not designed or expected to be negatively correlated to equity markets, we think the correlation will remain fairly low and can offer a complementary return stream that should be competitive with much lower risk. Based on our hypothetical past performance analysis, the current set of managers at the proposed weights have had a 0.6 correlation to global equities since 2008.[i]

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7. What is the difference between a "Core" and "Satellite" manager?

This nomenclature is based on the discretionary decision made by the Cidel Multi Asset Class team to overweight certain managers, dubbed 'Core', that are perceived to be more structurally exposed to the normalization (tightening) in credit spreads and should relatively outperform as credit markets recover; meanwhile, the other more diversifying strategies, dubbed 'Satellite', will also benefit from an improved environment for their strategies but will also bring diversity and balance to the portfolio to improve the overall risk/volatility characteristics.

8. What are the return expectations for this strategy? What is a best and worst case scenario?

It is our base case expectation that this strategy can produce returns in the high single digit range over the long term. However, given the heightened opportunity set today, we believe that there is a high probability of achieving returns above this level over the shorter to medium term. To provide some statistics based on the hypothetical historical results, these managers produced a maximum 1yr return of +49.6% and a minimum 1yr return of -3.5%. On a 3 year basis the maximum was 18.5% annualized and the minimum was 5.7% annualized (a positive result). The maximum drawdown peak-to-trough was -13.6% which occurred over a 6 month period in 2008 during the global financial crisis market crash and was fully recouped in the following 6 months.[i]

Fund Structure & Terms

9. How is the Fund structured?

It is a Canadian Investment Trust that will invest in the offshore fund vehicles of the proposed hedge fund managers (i.e. a fund of funds).

11. What are the fees charged to investors?

For existing Cidel clients, fees will only be charged at the account level and no additional fees will be charged by the Fund. For non-Cidel clients, there will be a fee-paying share class charging a flat 1% management fee annually.

The underlying hedge funds also charge fees, but we selected these funds based on our belief that their skill and return potential justifies the fees charged. All of the returns in the presentation are net of the underlying manager fees.[i] Typically hedge funds will charge both a flat management fee in the 1.5-2% range with a performance fee over a high watermark* and/or a hurdle rate** in the 15-20% range.

12. Can you explain the distribution?

The underlying hedge funds do not pay any distributions. However, the Cidel Credit Opportunities Fund will be a Canadian domiciled pooled fund and distributions will be made to investors to ensure that the fund is not subject to taxes under the Income Tax Act. The intention will be to set a distribution rate equal to the prescribed rate + 2%. From a return perspective, we expect the majority of the returns to come from capital gains.

*A high-water mark is the highest peak in value that an investment fund or account has reached. This term is often used in the context of fund manager compensation, which is performance-based. The high-water mark ensures the manager must get the fund above the high-water mark before receiving a performance fee.

**A hurdle rate is the minimum rate of return the manager must surpass before receiving a performance fee. A hurdle rate can be a fixed level or relative to a stated benchmark.

13. Will the Fund be marginable?

The Fund itself is not marginable but Cidel does offer lines of credit and term loans. Please inquire with your Wealth Consultant if this is of interest.

14. Can you explain the liquidity to investors?

The Fund has quarterly liquidity with 100 days' notice and a 12 month soft lock (4% early redemption penalty). All of the underlying funds also have quarterly redemption terms to allow us to match client liquidity needs.

15. How does Cidel and its clients access these managers?

Cidel enables its clients to access these managers through our scale as a firm, as many of these managers require high minimum investments often not achievable by individuals (typically $1-5m minimum per manager). Some of these managers are not open to new investors and only accept money from pre-existing relationships, which Cidel already has.

If you have any additional questions or require more information, please contact your Cidel Wealth Consultant.

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Disclaimers

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Where applicable, Cidel has selected a benchmark so that a relevant and relative comparison can be made between the performance of the portfolio vs. the benchmark. Where possible, Cidel has selected a benchmark that best fits the portfolio composition based on asset class, geographic and currency allocations. Benchmark performance does not include the cost of investing and should be taken into account when comparing net performance (i.e. after management fees have been deducted) of the portfolio vs. the benchmark. Please contact your Cidel representative if more detailed information is required on the benchmark.

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<u>Endnotes:</u>

[i] Cidel Hypothetical Returns have been generated from the actual performance return of the seven (7) underlying funds, according to the following hypothetical portfolio weightings: Chatham High Yield Offshore Fund Ltd 20%, Davidson Kempner International Ltd 15%, KL Special Opportunities Fund 15%, Linden International Ltd 20%, 1798 Credit Convexity Fund 10%, Old Orchard Credit Fund, Ltd 10%, Trend Macro Offshore Ltd. 10%. The Cidel Hypothetical Returns assume the weightings are re-balanced monthly and are redistributed proportionately for funds that have an inception date after January 2008. Cidel Hypothetical Returns is net of the underlying funds' fees but gross of any investment management fees earned by Cidel.

Past performance is no guarantee of future results. Cidel's ongoing selection of the manager weightings may impacts the fund's performance.

[ii] FRED; ICE Data Indices, LLC; Allocator.com; Preqin

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