

FORTIFIED CORE BOND FUND



**THINK AHEAD.
STAY AHEAD.**

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for Picton Mahoney Fortified Core Bond Fund (the "Fund"). If you have not received a copy of the annual financial statements with the management report of fund performance, you may obtain a copy of the annual financial statements, at no cost, by calling 416-955-4108 or toll-free at 1-866-369-4108, by writing to us at Picton Mahoney Asset Management, 33 Yonge Street, Suite 830, Toronto ON M5E 1G4, or by visiting our website at www.pictonmahoney.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

INVESTMENT OBJECTIVE AND STRATEGIES

The investment objective of the Picton Mahoney Fortified Core Bond Fund is to preserve capital while maximizing total return to unitholders predominantly through income, supplemented with capital appreciation. The Fund invests primarily in a well-diversified portfolio of North American fixed-income securities and engages in hedging strategies or volatility management and risk mitigation. Picton Mahoney Asset Management is the manager (the "Manager"), portfolio advisor (the "Portfolio Advisor") and the trustee (the "Trustee") of the Fund.

To achieve the investment objective, the Fund invests in an actively managed portfolio composed primarily of investment-grade government and corporate bonds of Canadian and U.S. issuers. The Fund will: i) maintain a minimum allocation to government securities of 30%; ii) aim to manage portfolio duration through security selection and hedging instruments; iii) aim to fully hedge foreign currency exposure; and iv) not invest in common equities and convertible bonds.

The Fund may also choose to: i) invest in fixed income securities rated below investment grade up to a maximum allocation of 25%; ii) invest in fixed income securities that are economically tied to emerging market countries up to a maximum allocation of 10%; iii) invest up to 100% of its portfolio in developed markets; iv) engage in short selling in a manner which is consistent with the investment objectives of the Fund and as permitted by securities regulations; v) choose to take long and short positions in private company debt offerings; vi) use derivatives, such as swaps, options, futures and forward contracts, in a manner which is consistent with the investment objectives of the Fund and as permitted by securities regulations, including for: a) hedging purposes aimed to mitigate risks commonly associated with income investing (rate risk, liquidity risk, currency risk and credit risk); and b) non-hedging purposes, including as a substitute for direct investment, to generate income or extend or reduce the duration of fixed-income investments; and vii) hold cash and cash equivalents.

The Fund has also obtained exemptive relief from Canadian securities regulatory authorities to invest in ETFs listed on a Canadian or United States stock exchange that seek to replicate the daily performance of a widely-quoted market index (i) in an inverse multiple of 100%, or (ii) by a multiple of up to 200% or an inverse multiple of up to 200% (in either case, a "Permitted ETF"). In each case: (a) the investment would be made by the Fund in accordance with its investment objective; (b) the Fund would not short sell securities of any Permitted ETF; (c) the aggregate investment by the Fund in Permitted ETFs would not exceed 10% of the Fund's net asset value, taken at market value at the time of purchase; and (d) the Fund would not purchase

securities of a Permitted ETF that tracks the inverse of its underlying index (a "Bear ETF") or short sell securities of any issuer if, immediately after such purchase or short sale, more than 20% of the net asset value of the Fund, taken at market value at the time of the transaction, would consist of, in aggregate, securities of Bear ETFs and all securities sold short by the Fund.

RISK

There is no assurance that the Fund will be able to achieve its total return, capital preservation and distribution investment objectives. There is no assurance that the portfolio will earn any return and no assurances can be given as to the amount of distributions in future years and that the net asset value (the "NAV") of the Fund will appreciate or be preserved.

While risks are numerous, we believe the following are the most pertinent ones to be mindful of today:

1. Fixed Income Investment Risk – Certain general investment risks can affect fixed income investments in a manner similar to equity investments. For example, specific developments relating to a company and general financial, political and economic (other than interest rate) conditions in the country in which the company operates. For government fixed income investments, general economic, financial and political conditions may affect the value of government securities. Since a Fund's unit price is based on the value of its investments, an overall decline in the value of its fixed income investments will reduce the value of the Fund and therefore, the value of your investment. However, your investment will be worth more if the value of the fixed income investments in the portfolio increases.
2. Credit Risk – An issuer of a bond or other fixed income investment may not be able to pay interest or to repay the principal at maturity. The risk of this occurring is greater with some issuers than with others. For example, the risk of default is quite low for most government and high quality corporate securities. Where this risk is considered greater, the interest rate paid by the issuer is generally higher than for an issuer where this risk is considered to be lower. This risk could increase or decline during the term of the fixed income investment. Companies and governments that borrow money, as well as their debt securities, may be rated by specialized rating agencies. A downgrade in an issuer's credit rating or other adverse news regarding an issuer can reduce a security's market value. Lower rated debt instruments generally offer a better yield than higher-grade debt instruments, but have the potential for substantial loss.
3. Interest Rate Risk – Mutual funds that invest in fixed income securities, such as bonds, and money market instruments, are sensitive to changes in interest rates. In general, when interest rates are rising, the value of these investments tends to fall. When rates are falling, fixed income securities tend to increase in value. Fixed income securities with longer terms to maturity are generally more sensitive to changes in interest rates. Certain types of fixed income securities permit issuers to repay principal before the security's maturity date. There is a risk that an issuer will exercise this prepayment right after interest rates have fallen and the funds that hold these fixed income securities will receive payments of principal before the expected maturity date of the security and may need to reinvest these proceeds in securities that have lower interest rates.

For further details relating to risks of investing in the Fund, please refer to the *Specific Investment Risks*, *Investment Risk Classification Methodology*, and *Who Should Invest in the Funds* sections of the Simplified Prospectus.

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

RESULTS OF OPERATIONS

For the period of October 28, 2022 to December 31, 2022, the net asset value of the Fund was approximately \$17.0 million. During the same period, performance on the Fund's portfolio increased its assets by \$0.4 million. The Fund also received \$16.6 million in proceeds, had reinvestment of distributions of \$0.3 million, and paid distributions totaling \$0.3 million.

There have been no changes made to the Picton Mahoney Fortified Core Bond Fund (the "Fund") during the reporting period other than its creation in November 2022. The Fund has been invested in government bonds, as well as a basket of global corporate bonds selected in a bottom-up approach diversified by sectors. These investments are primarily in government and high-grade fixed income securities (rated BBB and above) issued in developed markets, with the balance in event-driven special situations. The options hedging overlay was invested primarily in puts against credit while duration has been tactically adjusted using options on government bond futures. The Fund was 100% currency-hedged during the period.

Over this timeframe, we remained focused on providing sustainable income, growth and downside protection. Based on market conditions, our target net position was 90% to 100% invested in securities, leaving some liquidity to take advantage of opportunities as they arose. Geographically, investments have been concentrated in the U.S. and Canada. From a sector exposure perspective, the Fund has been well diversified with an overweight in Financials.

The Fund underperformed its benchmark over the two-month period since inception. Defensive positioning and underweight duration contributed to the relative underperformance during the period.

We continued to employ the options overlay hedging strategy in the Fund, allocating the option budget over rate, credit and cross-asset indices, depending on the exposure of the portfolio and the relative attractiveness of the cost to hedge.

RECENT DEVELOPMENTS

During 2022, we saw the U.S. Federal Reserve ("Fed") embark upon aggressive monetary policy tightening with several rate hikes and quantitative tightening. There was tremendous volatility across asset classes as the market reacted to policy tightening and increasing probability of a recession, although risk assets stabilized in Q4 on peaking inflation and expectations of an eventual pause and pivot from the Fed.

Despite the Fed's hawkish messaging, the interest rate market is pricing in a terminal rate of just below 5% and ~50 basis points of rate cuts in the second half of 2023. There seems to be inconsistency with the level of optimism implied by equities and credit spreads while monetary policy remains uncertain and the rate market appears to be pricing in a higher chance of an economic slowdown.

We continue to observe some encouraging signs of inflation rolling over, however we also see a risk that the Fed would rather be a quarter too late instead of a quarter too early and therefore may need more conclusive evidence of inflation coming down before we get a more substantial shift in policy stance. Global central bank policy, particularly Japan, also remains uncertain.

Despite the macroeconomic risks, with yields on corporate bonds at March 2020 levels and trading at the highest level since 2009, there is a compelling opportunity to buy high quality short duration credit. However, given the uncertainties, we believe it is critical to maintain a hedged approach as we enter 2023.

RELATED PARTY TRANSACTIONS

Picton Mahoney Asset Management is the manager (the "Manager"), portfolio advisor (the "Portfolio Advisor"), and trustee ("the Trustee") of the Fund. The Manager is an investment manager focused on equity and fixed income securities investments with approximately \$8.9 billion of assets under management as of December 31, 2022. As at December 31, 2022, the Manager held 5,087 units of Class A, 5,086 units of Class F, and 5,086 units of Class I of the Fund.

Management Fees

As a result of providing investment and management services, the Manager receives a management fee calculated and accrued daily based on the NAV of the class of units of the Fund, plus applicable taxes, payable on the last day of each calendar quarter. For the period October 28, 2022 to December 31, 2022, the Fund incurred management fees of \$1,400. Management fees in respect of Class I units are direct fees negotiated with the investor, paid directly by the investor, and would not exceed the management fee payable on Class A units of the Fund. The Manager uses these management fees to pay for sales and trailing commissions to registered dealers on the distribution of the Fund's shares, investment advice, as well as general administrative expenses relating to Picton Mahoney's role as Manager. The following is a breakdown:

As a Percentage of Management Fees			
	Annual Rates	Dealer Compensation	General Administration and Investment Advice
Class A units	1.30%	50.00%	50.00%
Class F units	0.65%	-	100.00%
Class ETF units	0.65%	-	100.00%

Out of the management fees that the Manager received from the Fund, the Manager paid trailer commissions of \$nil for the period October 28, 2022 to December 31, 2022.

Independent Review Committee

The Fund receives standing instructions (the "SI") from the independent review committee (the "IRC"). The SI constitutes a written approval or recommendation from the IRC that permits the Manager to proceed with specific action(s) set out in the SI on an ongoing basis. The SI is designed to ensure that the Manager's actions are carried out in accordance with the law, the instrument and the Manager's policies and procedures in order to achieve a fair and reasonable result for the Fund. The SI outlines actions related to i) Fees and Expenses; ii) Trade Allocations; iii) Broker Selections; iv) Code of Ethics and Conduct; v) Portfolio Pricing Issues, amongst other things. The Manager must provide the IRC with a written report summarizing each instance where the Manager has relied on the SI. For the period October 28, 2022 to December 31, 2022, the IRC did not provide any recommendations to the Manager.

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

FINANCIAL HIGHLIGHTS

The following table show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past periods as applicable.

Class A Units - Net Assets per Unit	
	Dec 31, 2022(\$) ⁽⁷⁾
Net Assets, beginning of period	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expense	-
Realized gains (losses)	0.14
Unrealized gains (losses)	0.02
Total increase (decrease) from operations⁽¹⁾	0.23
Distributions:	
From income	(0.05)
From dividends	-
From capital gains	(0.13)
Return of capital	-
Total annual distributions⁽¹⁾⁽²⁾	(0.18)
Net Assets, end of period	10.06

Class A Units - Ratios/Supplemental Data	
	Dec 31, 2022(\$) ⁽⁷⁾
Total Net Asset Value (\$000's) ⁽³⁾	51
Number of units outstanding (000's) ⁽³⁾	5
Management expense ratio ⁽⁴⁾	1.81%
Management expense ratio before waivers and absorptions	2.39%
Trading expense ratio ⁽⁵⁾	0.51%
Portfolio turnover rate ⁽⁶⁾	24.03%
Net Asset Value per unit	10.06

Class F Units - Net Assets per Unit	
	Dec 31, 2022(\$) ⁽⁷⁾
Net Assets, beginning of period	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expense	-
Realized gains (losses)	0.14
Unrealized gains (losses)	0.04
Total increase (decrease) from operations⁽¹⁾	0.25
Distributions:	
From income	(0.05)
From dividends	-
From capital gains	(0.13)
Return of capital	-
Total annual distributions⁽¹⁾⁽²⁾	(0.18)
Net Assets, end of period	10.07

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

Class F Units - Ratios/Supplemental Data	
	Dec 31, 2022(\$) ⁽⁷⁾
Total Net Asset Value (\$000's) ⁽³⁾	51
Number of units outstanding (000's) ⁽³⁾	5
Management expense ratio ⁽⁴⁾	1.07%
Management expense ratio before waivers and absorptions	1.68%
Trading expense ratio ⁽⁵⁾	0.51%
Portfolio turnover rate ⁽⁶⁾	24.03%
Net Asset Value per unit	<u>10.07</u>

Class I Units - Net Assets per Unit	
	Dec 31, 2022(\$) ⁽⁷⁾
Net Assets, beginning of period	<u>10.00</u>
Increase (decrease) from operations:	
Total revenue	0.08
Total expense	(0.01)
Realized gains (losses)	0.17
Unrealized gains (losses)	<u>0.08</u>
Total increase (decrease) from operations⁽¹⁾	<u>0.32</u>
Distributions:	
From income	(0.06)
From dividends	-
From capital gains	(0.15)
Return of capital	<u>(0.00)</u>
Total annual distributions⁽¹⁾⁽²⁾	<u>(0.21)</u>
Net Assets, end of period	<u>10.08</u>

Class I Units - Ratios/Supplemental Data	
	Dec 31, 2022(\$) ⁽⁷⁾
Total Net Asset Value (\$000's) ⁽³⁾	15,792
Number of units outstanding (000's) ⁽³⁾	1,566
Management expense ratio ⁽⁴⁾	0.28%
Management expense ratio before waivers and absorptions	1.15%
Trading expense ratio ⁽⁵⁾	0.51%
Portfolio turnover rate ⁽⁶⁾	24.03%
Net Asset Value per unit	<u>10.08</u>

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

Class ETF Units - Net Assets per Unit	
	Dec 31, 2022(\$) ⁽⁷⁾
Net Assets, beginning of period	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expense	(0.02)
Realized gains (losses)	0.14
Unrealized gains (losses)	0.08
Total increase (decrease) from operations⁽¹⁾	0.27
Distributions:	
From income	(0.05)
From dividends	-
From capital gains	(0.14)
Return of capital	(0.00)
Total annual distributions⁽¹⁾⁽²⁾	(0.19)
Net Assets, end of period	10.12

Class ETF Units - Ratios/Supplemental Data	
	Dec 31, 2022(\$) ⁽⁷⁾
Total Net Asset Value (\$000's) ⁽³⁾	1,113
Number of units outstanding (000's) ⁽³⁾	110
Management expense ratio ⁽⁴⁾	1.07%
Management expense ratio before waivers and absorptions	1.71%
Trading expense ratio ⁽⁵⁾	0.51%
Portfolio turnover rate ⁽⁶⁾	24.03%
Net Asset Value per unit	10.12
Closing Market Price (TSX)	10.12

EXPLANATORY NOTES

- (1) Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) Distributions were paid in cash, reinvested in additional units of the Fund, or both.
- (3) This information is provided as at the periods shown.
- (4) The management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. In the period the shares are established, the MER is annualized.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (6) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. Portfolio turnover rate is calculated based on the lesser of the cost of purchases or proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.
- (7) For the period from October 28, 2022 (commencement of operations) to December 31, 2022.

PAST PERFORMANCE

Investment performance is not provided for a Fund that has been available for less than one year.

PICTON MAHONEY FORTIFIED CORE BOND FUND

MANAGEMENT REPORT OF FUND PERFORMANCE (FOR THE YEAR ENDED DECEMBER 31, 2022)

SUMMARY OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2022

Portfolio by Category		Top 25 Holdings	
	Percentage of Net Asset Value (%)		Percentage of Net Asset Value (%)
LONG POSITIONS		LONG POSITIONS	
Canadian Debt	57.4%	United States Treasury Note/Bond 2.125%, 2025-05-15	3.8%
Corporate Bonds	37.8%	United States Treasury Note/Bond 1.875%, 2026-07-31	3.7%
Government Bonds	19.6%	Canadian Government Bond 5.000%, 2037-06-01	2.8%
Global Debt	41.6%	Canadian Government Bond 2.000%, 2051-12-01	2.7%
United States Bonds	36.7%	Canadian Government Bond 1.000%, 2026-09-01	2.7%
International Bonds	4.9%	United States Treasury Note/Bond 3.000%, 2052-08-15	2.7%
Derivatives	0.1%	Canadian Government Bond 2.250%, 2024-03-01	2.6%
Total Long Positions	99.1%	Canadian Government Bond 2.250%, 2025-06-01	2.6%
SHORT POSITIONS		Bank of Nova Scotia 8.625%, 2082-10-27	1.7%
Derivatives	-0.4%	Toronto-Dominion Bank 8.125%, 2082-10-31	1.7%
Total Short Positions	-0.4%	Canadian Government Bond 2.250%, 2029-06-01	1.7%
Cash	0.3%	Canadian Government Bond 2.500%, 2032-12-01	1.6%
Other Assets (net)	1.0%	Canadian Government Bond 1.250%, 2027-03-01	1.6%
Total	100.0%	First Quantum Minerals Ltd. 6.875%, 2027-10-15	1.5%
		United States Treasury Note/Bond 2.750%, 2032-08-15	1.5%
		Videotron Ltd. 5.750%, 2026-01-15	1.4%
		Brookfield Property Finance ULC 4.300%, 2024-03-01	1.4%
		United States Treasury Note/Bond 1.750%, 2029-01-31	1.4%
		Viterra Finance BV 2.000%, 2026-04-21	1.4%
		Province of Alberta Canada 2.950%, 2052-06-01	1.4%
		Ford Credit Canada Co. 6.777%, 2025-09-15	1.3%
		United States Treasury Note/Bond 2.750%, 2042-08-15	1.3%
		United States Treasury Note/Bond 2.875%, 2052-05-15	1.3%
		Parkland Corp. 3.875%, 2026-06-16	1.2%
		AerCap Ireland Capital DAC 6.500%, 2025-07-15	1.2%
		Total Net Asset Value (\$000)	\$17,008

The Summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly update is available on our website at www.pictonmahoney.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies and events. Forward-looking statements include words such as "anticipates," "believe," "could," "expect," "estimate," "may" or negative versions thereof and similar expressions. By their nature, forward-looking statements make assumptions on future events that are subject to inherent risks and uncertainties. There is significant risk that predictions on the Fund, future events and economic conditions will not prove to be accurate. Forward-looking statements are not guarantees of future performance and actual results may differ materially from management projected expectations due to factors such as general market and economic conditions, interest rates and foreign currency fluctuations, changes to regulatory requirements and guidelines, changes in technology, effects of competition in the various business areas and unforeseen natural disasters and catastrophes. As a result of these factors, readers of this document are cautioned not to place undue reliance on these statements and before making any investment decisions should clearly consider these factors, among other factors. All opinions contained in the forward-looking statements are subject to change without notice and are provided in good faith, unless required by applicable law.

**THINK AHEAD.
STAY AHEAD.**



PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION

Corporate Address

Picton Mahoney Asset Management

33 Yonge Street, Suite. 830
Toronto, Ontario
Canada M5E 1G4

Telephone: 416.955.4108
Toll free: 1.866.369.4108
Fax: 416.955.4100
Email: service@pictonmahoney.com
www.pictonmahoney.com

Auditor

PricewaterhouseCoopers LLP

18 York Street, Suite 2600
Toronto, Ontario
Canada M5J 0B2

Fund Administration & Transfer Agent

Picton Mahoney Funds

C/O RBC Investor Services Trust,
Shareholder Services
155 Wellington Street West, 3rd Floor
Toronto, ON
Canada M5V 3L3