FAIRCOURT SPLIT TRUST

June 30, 2020

Inception Date: March 17, 2006
Fund Manager: Faircourt Asset Management Inc.
Portfolio Advisor: Faircourt Asset Management Inc.
NEO Symbol: FCS.UN

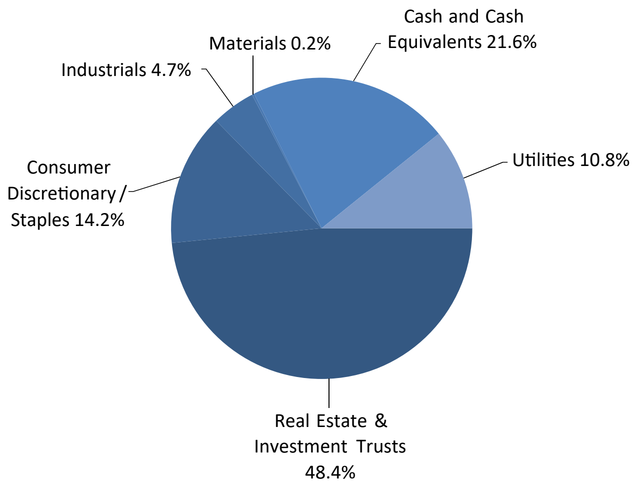
Faircourt Split Trust was created using a dual security structure, consisting of Trust Units and Preferred Securities, to provide investors with leveraged capital growth potential based on a portfolio of North American equity securities.

TOP TEN HOLDINGS as at June 30, 2020

- Brookfield Asset Mgmt Inc
- Brookfield Infrastructure
- BSR REIT
- CAP REIT
- Cargojet Inc.
- Costco Wholesale Corp
- Granite REIT
- InterRent REIT
- Walmart Inc.
- Waste Connections Inc.

PORTFOLIO ALLOCATION

Based on % of Portfolio, Net of Options



Investment Objectives

The investment objectives of the Trust are to achieve a balance between the objectives of the Preferred Securityholders and Unitholders, subject to the prior rights of Preferred Securityholders.

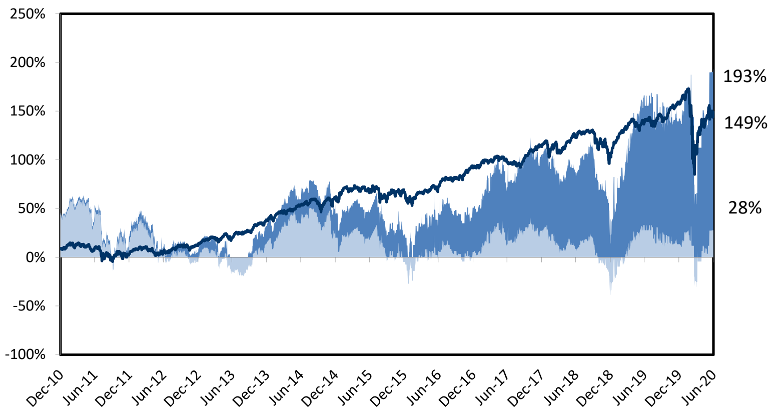
The investment objectives with respect to the Preferred Securities are (i) to provide Securityholders priority distributions of interest in the amount of $0.15 per quarter ($0.60 per annum to yield 6.0% per annum on the subscription price of $10.00); and (ii) to repay to Preferred Securityholders, on June 30, 2024 in priority to any return of the original subscription price to Unitholders, the original subscription price of the Preferred Securities.

The investment objectives with respect to the Trust Units are: (a) to provide Unitholders with a stable stream of tax efficient monthly cash distributions currently $0.06 per Trust Unit per month to yield 12% (market price as at June 30, 2020), a portion of which is tax-deferred; and (b) to return to Unitholders, on June 30, 2024 at least the original subscription price of the Units.

The following shows the returns since the merger for the trust units ending September 30, 2010. The returns are calculated in Canadian dollars.

PERFORMANCE SINCE SEPTEMBER 30, 2010
PAST PERFORMANCE

The Benchmark for the Fund is composed of the S&P TSX Composite Index (weight of 70%) and the S&P 500 in Cdn dollars (weight of 30%)



Source: Bloomberg. Data is based on price and includes distributions.

Returns for Year Ended December 31, 2019

	1 Year	3 Year	5 Year	10 Year	Since Inception*
FCS Price (1)	10.14%	19.46%	14.96%	N/A	11.66%
FCS NAV (1,3)	2.56%	10.36%	9.80%	N/A	7.36%
FCS Index (CAD) (2)	1.92%	6.47%	6.89%	N/A	8.73%

Notes:
(1) Assumes reinvestment of distributions;
(2) Source: Reuters
(3) Based on Basic NAV; Source: Faircourt Asset Management

*FCS since inception is from period September 30, 2010 (Date of merger with FIG)

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Management fees and expenses are associated with an investment in the fund. The performance data provided assumes reinvestment of distribution only and does not take into account redemption charges or income taxes payable by any security holder that would have reduced returns. An investment in the fund is not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer. There can be no assurance that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated.

FAIRCOURT SPLIT TRUST

First Half 2020

January 2020 started the year off with great enthusiasm as markets rallied at the beginning of the year and into February. But as we moved into March, the global spread of the coronavirus inserted a new level of risk that few anticipated would become a cause to shut down the global economy. The medical establishment, and governments around the world began to suggest shutting down economies and asked citizens to shelter in place, wear masks and gloves and socially distance yourself from others. The world now works from home, schools have gone virtual and consumers shop online. Shelter-in-place (SIP), work-from-home (WFH) and remote-learning (RL) policies have dominated 2Q20. The jobs report in May noted the unemployment rate was 23% and making the situation more complicated was the realization that 42% of layoffs caused by the pandemic are likely not coming back.

The global governmental response to the COVID crisis has been unprecedented. In both Canada and the US, federal stimulus programs were enacted in April, providing initial support to the unemployed, to industries hardest hit as well as to recovery plans aiding the re-opening. It must be stated that although there were mistakes, the speed with which federal governments responded to the pandemic was unprecedented. If we consider the many months that governments took to figure out responses to the Financial Crisis of 2008-09, the current situation was met with efficiency and size. The amount of stimulus provided in the US alone amounts to $6 trillion including funds from the Congress, Treasury and the US Federal Reserve.

Within these efforts, Central Banks around the world have stepped up monetary support to levels not seen before. US Federal Reserve Chair Jerome Powell has stated that the Fed is prepared to do “whatever it takes” to assist in the revitalization of the US economy, including the maintenance of a low interest rate policy that will keep rates near zero until at least 2022. It is these bold actions though that have long term and potentially unintentional consequences. Chairman Powell has stated that the Fed will not only support Treasury issuance but will also support the corporate bond market. This has wide ranging and concerning implications. If the US Fed balance sheet is used to set the price of assets such as the S&P500, investment grade and high yield credit, the Fed ends up controlling all asset prices. As a result, pricing in stock markets and bond markets no longer reflect true equity or default risk. This potentially increases the likelihood of more serious consequences down the road for the currencies and governments. We know from recent history that countries that have monetized their debt have had consequences for government bond interest rates as well as for equity and borrowing.

As the first half of the year ended, it appears that the initial strength of the re-opening began to show signs of weakening. One of the tailwinds that assisted the economy was initial government response and stimulus that began in mid-April. However that three month project has lost support as initial jobs reports led Congress to believe they had done enough. Clearly the weakness still persists, joblessness is still a factor. Our view is that the impact of the virus is a challenge that will be present for the next few quarters until such time as effective medications are developed, testing is accomplished effectively and people take the spread of the virus more seriously.

The real economy and capital markets continue to move in opposite directions. Most recently the Federal Reserve has modelled some seriously adverse scenarios for financial assets, going as far as forbidding share buybacks by banks. They see downside risk to the economy going forward and they are restricting bank’s use of capital so we should take that seriously. Fundamental drivers seem to shift, surrounding the FED, surrounding a vaccine, surrounding dollar devaluation. The buyer of last resort or the appeal that it’s the Fed’s role to be the buyer of last resort continues to dominate momentum.

We believe what hasn’t sunk in yet (with some investors) is the potential escalation in bankruptcy announcements. While markets can sustain momentum over the short term, if there is a major shift in economic fortunes, the ability of the markets to resist that shift dissipates and downside risks rise in probability. If there was in fact a V-shaped recovery we would expect to see the banks participate in the price appreciation and not be negative performers for the year.

On the unemployment front an instructive way to analyze the magnitude of the US labour market deterioration is to look at continuing unemployment claims. As of late July continuing claims were 16 million, currently 2.5x the previous high of 6.6 million set during the financial crisis of 2008-09. The traditional cure for a weak economy has generally been a reliance on the consumer to bail out the North American economy. Some combination of low interest rates, relaxed mortgage terms, a wealth effect from rising stock and bond markets and access to credit card debt has generally been enough to get the consumer spending. In this instance, the consumer is generally under-employed over levered and over extended. Businesses are delaying investment in plant and equipment as long as the consumer remains unhealthy. This is why we are sticking with our disciplined proven approach.

While we believe there are elevated risks in the market, we also see opportunities. Many investors are being drawn towards technology and momentum stocks and may not realize the level of risk they are taking on. In contrast to this herd mentality, the Fund uses a diversified approach to North American equities maintaining exposure in many, but not all, of the sub-sectors within the S&P/TSX and S&P 500. The focus of the Fund is to provide a portfolio solution to investors interested in a lower volatility portfolio while addressing the need for income. Our strategy continues to focus on consumer needs relative to wants; and movement of goods and services. We believe that companies that exhibit core strengths in providing goods and services will prove beneficial in this environment and after this period. While we cannot ignore the headlines around the world that will surely generate continued volatility in global equities and currencies, we will continue to focus on holding a diversified, but focused portfolio of leading companies, many of which generate stable and growing distributions. Criteria we look for are sound business models focusing on cash flow generation; long term steady demand for their products or services; growing cash flow; disciplined in its need to raise capital; as well as having a lower dividend payout ratio.

A key player in the food supply chain and the only publicly listed owner / operator of temperature-controlled warehouses is Americold Realty Trust. Cold storage fundamentals are strong, historically predictable, and the services offered are mission critical to worldwide food distribution. The refrigerated storage industry possesses attractive fundamentals, with demand increasing at a healthy pace, thanks to population growth, urbanization, and a shift towards fresh foods. Americold has an industry leading 27% market share in the United States and approximately 5% global market share. Its customers include such leading food producers such as Conagra, McCain and Danone and retailers such as Safeway, Kroger and Grocery Outlet. Based on our “needs” theme, food consumption is vital, and during the pandemic we are also witnessing a shift from food away from home to food at home with Americold operations benefitting.

Cargojet, is Canada’s number 1 time-sensitive overnight air cargo consolidator representing over 90% of the domestic overnight air cargo lift available in Canada. CJT works with large manufactures and distributors moving shipments to local delivery services. Approximately 75% of domestic revenues are under long-term contracts with guaranteed volume minimums and CPI-based automatic annual price increases. We are attracted to CJT’s near-monopolistic position in the Canadian air cargo market, with significant barriers to entry, long term pilot contracts containing non-strike clauses in addition to the tailwinds from e-commerce and its recent Amazon partnership that helps CJT shrug off the impact from global trade reductions. We are anticipating e-commerce channels to remain strong as consumers look to alternate channels as work from home and social distancing measures continue. Longer term, Amazon continues to report volume increases and we view this as positive to its carriers that benefit from Amazon’s push for faster deliveries.

Another company we like that benefits from the e-commerce shift and continues to see attractive organic growth is VISA. It continues to post impressive revenue growth and benefits immensely from the move away from cash based purchases to credit based settlement. While a recession would impact both consumer transaction volumes as well as the dollar value of purchases, VISA has done a great job shifting resources and attention to E-commerce and emerging markets. Both E-commerce volumes and growth in disposable income in emerging markets are set to rise materially over the next decade and VISA stands to benefit from this shift. VISA maintains a leading position in credit based settlement and has proven over the long term that it can successfully navigate in all economic environments.

As we write, North American equity markets are volatile, and in the US the S&P 500 is making lower highs on reduced volumes. This tells us there is little conviction, typical of a market getting exhausted on the upside. The current opportunity which exists, given the current volatility levels, is to use our option strategy to allocate capital to equities. Current volatility levels are offering us a rare opportunity to earn additional returns on otherwise cash that would not be invested. Prior to this year, volatility was at record lows allowing an investor to simply buy portfolio insurance at a low cost and ride this current uncertainty out until it fades away. This is not available today. Instead we use the volatility to our advantage and for as long as it is elevated we sell options, generating significant option income, and on a stock by stock basis consider buying options on companies that may offer us a levered return to the upside when markets return to more normal consumption patterns. Our downside is limited to the net premium paid. Investing with defined downside and upside we consider to be a very good form of risk management.

Market volatility creates opportunities and this time is no different. It is precisely when investors who maintain a long term view, balancing risk and opportunity, can position themselves to be rewarded. We will stay invested, look for opportunities in the options market, make decisions based on our risk tolerance and return expectations. Our mindset is the current period of above average anxiety will be followed by a period of slow and steady recovery as countries cautiously re-open borders and populations return back to more appropriate consumption patterns. This situation will only become normalized after people feel no fear of contracting COVID-19.

Since inception of the option-writing program in 2009, the Fund has generated significant income from option premium of approximately $12.22 million or $6.20 per weighted average number of Trust Units outstanding. For the first six months of 2020, the Fund generated income from option writing of approximately $0.12 million or $0.1155 per weighted average number of Trust Units outstanding.

For the year to date period ending June 30, 2020 the Fund returned +20.99% (Price basis) versus the benchmark performance of -4.84%. We will continue to use our option writing program to re balance our portfolio weightings and generate a monthly income stream that we pay out to shareholders. Over the past several years we have attempted to reduce the number of holdings in our portfolio and manage risk by not overpaying for growth while holding a concentrated portfolio of the team’s best ideas that will navigate the Fund through these cautious markets.