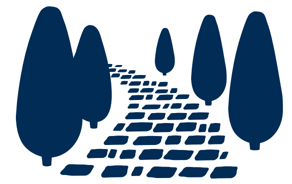
FAIRCOURT

SPLIT TRUST



Fourth Quarter 2021

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

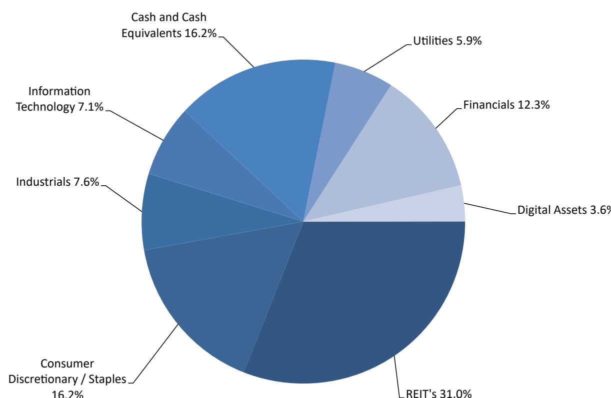
Faircourt Split Trust was created using a dual security structure, consisting of Trust Units and Preferred Securities, to provide investors with leveraged capital growth potential based on a portfolio of North American equity securities.

TOP TEN HOLDINGS as at December 31, 2021

- Brookfield Asset Management
- Brookfield Infrastructure Partners
- CAP REIT
- Dufry AG
- Granite REIT
- InterRent REIT
- Life Storage Inc.
- Microsoft Corp.
- Royal Bank of Canada
- 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.

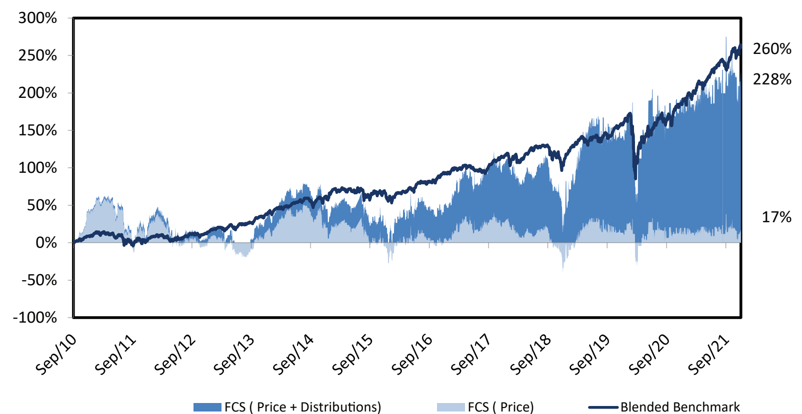
The investment objectives with respect to the Preferred Securities are (i) to provide Securityholders priority distributions of interest in the amount of $0.15 per quarter ($0.60 per annum to yield 6.0% per annum on the subscription price of $10.00); and (ii) to repay to Preferred Securityholders, on 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 13.09% (market price as at December 31, 2021), 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%)a



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

Returns for Period Ended December 31, 2021

	1 Year	3 Year	5 Year	10 Year	Since Inception*
FCS Price (1)	19.44%	42.03%	16.75%	10.43%	11.12%
FCS NAV (1,3)	6.45%	29.39%	11.49%	7.62%	8.07%
FCS Index (CAD) (2)	25.88%	19.11%	12.13%	12.12%	11.04%

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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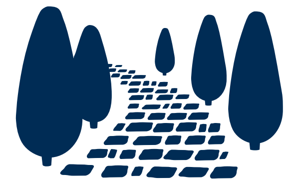
Management fees and expenses are associated with an investment in the fund. The performance data provided assumes reinvestment of distribution only and does not take into account redemption charges or income taxes payable by any security holder that would have reduced returns. An investment in the fund 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



Fourth Quarter 2021

Since the end of 2021, equities have struggled to find their footing amid a risk-off sentiment driven by the Omicron variant, the release of minutes from last months's FOMC meeting, and rising geopolitical tensions. Market bears are pointing to the Fed and raising rates, yield curve compression and continued rising inflation prints, albeit on lagging data. Market bulls are acknowledging the bears narrative, but continue to point to reopening delays and stability in employment levels needed before a more hawkish Fed policy can take place. These two different narratives seem to be fighting for control and contributing to market choppiness. As a result there is uncertainty with respect to market direction. Needless to say the macro backdrop is getting complicated. Capital markets can adjust to good news and bad news but have no easy way to price in true uncertainty. None of these narratives have anything to do with the economic cycle we are navigating. Uncertainty has also been propagated by lower US growth expectations following doubts that the US administration's Build Back Better spending plans can be resuscitated. The detail contained within the Fed minutes indicated a more widespread belief among FOMC participants that the Fed needed to move sooner and more quickly in reducing the overall size of the Fed balance sheet, signaling possibly 4 rate hikes for 2022 and that has spooked equity markets. This degree of hawkishness had already been communicated by the Fed in several forms, and so it is perhaps surprising that equity investors had a strong reaction to the news. Investors were perhaps caught off guard by the forcefulness and level of consensus shown in the minutes. Chairman Powell did say the Fed is not on a preset path and would adjust if conditions warranted, meaning he has left the door open to delaying, defering or pivoting back to a more accomodative stance, essentially buying them optionality on when to execute further.

On the point of rate increases, market bulls are pointing to the bond market action and suggesting long term rates have peaked or are peaking (peaks, like bottoms, are a process and not points) suggesting the economy is not fully stablized and the Fed will not deliver on everything they said they would. Perhaps the Fed decides to raise once or twice at best and then allow the economic prints to confirm policy success in fighting inflation and then likely be in a position to stimulate again, when needed. The risk to this view is the Fed does see through its actions ensuring more dry powder in future cycles and we thus witness a prolonged bear market. US markets are a tad spooked right now, looking for direction. And barring a direction it is comfortable with (slow moving rate hikes), the market may overreact to get the Fed's attention.

Globally, the evidence that inflation has peaked or may be peaking is beginning to take shape. We have seen readings that multiple countries have reported slowing CPI in December vs November. Data is pointing to disinflation in 2022, but the reality is, certain components of CPI, such as wages and shelter, may not disinflate quick enough to have the Fed not begin raising rates in a material way. In absolute terms inflation will still be elevated but focusing on rate of change we are seeing de-acceleration.

On the labour front, job reports have been a mixed bag. On the one front the unemployment rate is on or about 4.2pct, good on the surface, but at the same time we are having the smallest number of new jobs created which is a concern. Then we factor in the a declining labour force participation rate and concerns about growth resurface. These mixed signals suggest nothing that would likely stop the Fed from changing its mind on the taper trajectory it has set for itself. The Fed has a dual mandate. The Fed's concern on price stability, meaning manageable inflation, suggests they would be willing to let interest rates rise a bit. On the other hand its maximum employment mandate has been driving the main reason why they have been so loose with monetary policy. But it appears, based on Powell's latest testimony, the inflation debate is in the driver's seat. While a low interest rate environment has sent equities to all time highs, rate hikes and ending easy-money policies more quickly could, however, turn the market into a bearish direction. Our role as PM's is to recognize the hazzards as this environment will force feed you discipline, or punish you for not showing it.

The bond market action is a leading indicator for us. Bond markets tend to be far less emotional than equity investors. Bond markets attempt to price in future inflation and GDP growth. Equity traders trade narratives, sentiment, earnings, buybacks to name just a few factors. The reality is removal of liquidity and Fed tone hawkishness are negative dynamics for capital markets. The short end of the curve, 2yr, will accelerate as the Fed moves to tighten rates. The long end of the curve, the 10 yr, is suggesting growth is close to peaking. The bond market is smart enough to look through cyclical dynamics and equity market noise.

The Fed is looking to taper, talking about raising rates at the same time the consumer is potentially restricing consumption. This could be the worst possible time for the Fed to move to a monetary tightening policy. The catalyst for disinflation is a rate hike, the catalyst for deflation is multiple rate hikes while growth is slowing. This is what a policy mistake looks like. The more challenging the environment the more likely we are to see a flight to safety, slow at first and then suddenly. This would be bullish for certain assets, USD$, treasuries, gold, interest rate sensitive sectors such as utilities and REIT's, and consumer staples, and yet bearish for basically everything else. The Fed has made this mistake twice before, Dec 2018 and in 2013. The Fed seems to have the uncanny ability to make moves at the wrong times. Our faith in the Fed has been deeply shaken by its approach to currency debasement, its inability to stay independent and its failed attempt to dismiss 16 months of elevated inflation prints that was evident to anyone paying attention. A world where both growth and inflation de-accelerates warrants a different asset allocation from the world we are exiting from, which has been elevated growth and inflation. We are gettting to a place where we need to be underweight what we were overweight and overweight what we were underweight. Risk managing a growth and inflation slowdown is tricky, but we think of it from a volatility perspective. The economic data is telling us growth and inflation have potentially peaked and are even decelerating. This is the pivot we began making in late December. The current yield spread, the difference between the 2year and the 10year is at the time of writing, sitting at around 45bps, suggesting more than two rate hikes and we risk inversion (think recession). Needless to say Chairman Powell and the Fed may need to back off on how aggressive they want to be tightening.

One of the main themes of this quarter's commentary is to block out the noise of the financial press, internet, social media (professional and amateur). The largest oversupply in our profession is in narratives and noise. We look to capitalize on that. We will keep focused on the Fed's commentary behind the decisions and the bond market's reaction. Data for us, outweighs narratives every time. Most of what passes for economic or market news is just noise, distractions that take your focus off what is really important. The noise can be deafening and can prevent you from taking necessary actions or convince you to take unnecessary ones. Our job as PM's is to to fade feelings and execute on our process, investing in the market we have and not the one we want. Financial turbulence is not rare, markets are unpredictable and volatility misbehaves. Even if they cannot be avoided, our role as PM's is to learn how to mitigate the risks associated with volatility.

The Trust's distribution is $0.06 per month per Trust Unit ($0.72 for the year per Trust Unit). The Trust's ability to continue variable distributions will depend on market conditions and the Trust's asset coverage levels and will be evaluated on a monthly basis. Since inception of the Trust, the Trust has paid total cash distributions of $8.15 per Trust Unit. For the year ended December 31, 2021 the Fund returned +6.45% (NAV basis) and +19.44% (Price basis) versus the benchmark performance of +25.88%.