

October 13<sup>th</sup>, 2015

## **Fulcra Focused Yield Fund Q3 2015 Commentary**

During the worst quarter for credit markets in four years, the **Fulcra Focused Yield Fund** performed -4.87%<sup>1</sup>. Despite the negative performance, we expect these markdowns will be returned to the Fund in the near-term. With a **yield-to-maturity of 10.1%**<sup>2</sup> and **low duration of 1.8 years**<sup>3</sup>, the drop in bond prices should, in our opinion, prove to be a good entry point for purchase.

Furthermore, market volatility is also providing ample opportunities for the Fund to add yield to the portfolio. When prices of securities that we know are reacting with high correlation to the general market, **we see opportunity**.

While September saw **some forced selling by others** in several of our positions, we encourage investors to consider exposure to **our investment strategy** through the **Fulcra Focused Yield Fund**.

As can be seen in the Top 10 Holdings table in the **last page of this commentary**, we have taken advantage of attractive yields to both **establish new positions** and **add to existing holdings**.

### ***Event-Driven Investing - High Yield and Short Duration***

We have written at length about the Fund's focus on **event-driven investing situations**—such as **early re-financings, mergers** and **restructurings**. These situations often present high yielding opportunities that have a short payback.

We highlight several current holdings to illustrate the abundance of event-driven situations throughout the Fund's portfolio.

---

<sup>1</sup> Class B, net of fees

<sup>2</sup> Gross yield for the portfolio, before fees.

<sup>3</sup> Portfolio duration is being calculated based on maturity dates of the Fund's fixed income securities. We expect that actual portfolio duration is much lower based on the high amount of "event-driven" securities that will be redeemed significantly earlier than respective maturity dates.

### **Russel Metals and American Achievement - Early Goodbyes**

As expected, early redemption was recently announced for the Fund's two largest positions—**Russel Metals 7.75% due Sep 2016** and **American Achievement 10.75% due Apr 2016**. Representing 9.6% of the portfolio, the respective companies will pay back these bonds to the Fund at the end of October. We look forward to redeploying this cash into new opportunities.

### **Canexus bonds - Benefiting from Superior Plus Acquisition Bid**

Subsequent to quarter-end, on October 6<sup>th</sup>, our 2.5% holding of Canexus bonds—2015, 2018, 2020 and 2021 maturities—has developed into another “event-driven” situation for the portfolio. The announced acquisition of Canexus by Superior Plus raised Canexus bond prices from the low 70s to mid-90s, immediately benefiting the portfolio overnight by 60bps.

The announced transaction dramatically shortens the expected duration of the bonds to early-to-mid 2016, while price levels are still yielding 15-20% to this expected redemption date. We have added to our Canexus bonds following the deal announcement.

### **Sherritt International – Ambatovy...Should It Stay or Should It Go?**

Our position in Sherritt bonds has declined over the past two quarters to low-60s prices, representing a year-to-date performance drag of -1.00%<sup>4</sup> for the Fund. Our Sherritt bond holdings—2018, 2020 and 2022 maturities—are currently quoting at yield-to-maturities of 18-28%.

The Sherritt bonds selloff has been due in large part to the nickel price weakness this year, which has coincided with the ramp-up of Sherritt's 40%-owned Ambatovy nickel mine in Madagascar. Despite the significant markdown of these bonds, we have a strong view that they are covered by the company's assets on a sum-of-the-parts valuation basis.

If Sherritt walked away from their non-recourse Ambatovy investment, we **believe that Sherritt's energy and nickel assets in Cuba would cover its bonds**. This would be a difficult decision for management and the board of directors, as Ambatovy has long been expected to

---

<sup>4</sup> Gross performance impact, before fees.



be Sherritt's crown jewel. However, this could well be management's best course of action for all stakeholders and one we think management and board has the aptitude to make.

As volatility persists, we continue to look for **opportunistic credit investments** defined by catalysts such as: **forced selling, mergers & acquisitions, tender candidates** and **asset sales**.

Some of our clients are "buying low" by adding exposure to the **Fulcra Focused Yield Fund** at the recent quarter-end. Should you wish to do the same, we would be happy to discuss our current opportunities in more detail.

Thank you for your continued support.

Best regards,

Matt Shandro  
President, Fulcra Asset Management Inc.

## Fulcra Focused Yield Fund - Top 10 Holdings

As of September 30th, 2015

#	Security Name	Portfolio Weight	Yield to Maturity*	Investment Comment
1	Russel Metals 7.75% due Sep 2016	5.0%	2.5%	<b>New in Q3.</b> Payback on <b>Nov 4th.</b> 2.5% yield to call.
2	American Achievement 10.875% due Apr 2016	4.6%	5.6%**	Payback on <b>Nov 2nd.</b> Price has appreciated since month-end to 5.6% yield to call, following the early refinancing announcement.
3	Westmoreland Coal Term Loan L+6.5% due Dec 2020	4.2%	10.7%	<b>Added in Q3.</b> Low-cost mines next to utilities see no competition above \$1.50/mmBTU natural gas price. Cash flow is contracted to paydown loan annually.
4	Tembec 9% due Dec 2019	3.3%	17.5%	<b>Added in Q3.</b> Multiple options exist to address liquidity concerns; US housing growth is improving lumber pricing prospects, new cogeneration facility will stabilize earnings.
5	Toys R Us PropCo II 8.5% due Dec 2017	3.2%	10.6%	<b>New in Q3.</b> Accumulated as bond weakened to 10% yield. Bond is secured by real estate of higher revenue stores.
6	Mood Media 10% due Oct 2015	2.8%	7.9%	<b>Added in Q3.</b> Maturity on <b>Oct 30th.</b> 7.9% yield to maturity.
7	Harland Clarke 9.75% due Aug 2018	2.8%	8.5%	<b>Added in Q3.</b> Senior secured high coupon bond is early refinance candidate. Stable businesses with 20% cash flow yield to these bonds.
8	Tuckamore Capital 8% due Mar 2016	2.8%	11.3%***	Average cost is below 70, and lower after adjusting for interest earned. Valuation is covered by one portfolio company and working capital.
9	Superior Plus 6% due Jun 2018	2.6%	5.2%	<b>Added in Q3.</b> Chemical business diversified with retail distribution.
10	Enova 9.75% due 2021	2.5%	14.7%	<b>Added in Q3.</b> Cheap valuation due to uncertain regulatory environment but it will be an industry survivor.

\*Gross yield of portfolio, before fees.

\*\*American Achievement yield to maturity is expressed as yield to Nov 2nd call date.

\*\*\*Tuckamore yield to maturity is expressed as current yield

This commentary is intended to provide you with information only and should not be considered personal investment advice. It does not constitute an offering or solicitation for the purchase or sale of securities or investment in any products. Every effort has been made to ensure that the material contained herein is accurate at the time of publication. However, Fulcra Asset Management Inc. cannot guarantee its accuracy or completeness and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. Important information about the Fulcra Focused Yield Fund is contained in the Confidential Offering Memorandum which should be read carefully before investing. For complete information relating to the Fund, including investment objectives and risk factors, please contact us for a copy of the Confidential Offering Memorandum.