

August 27th, 2015

Fulcra Focused Yield Fund – Portfolio Update

Given this week's market volatility and the short-term negative performance of the Fund, we think it is important to highlight some specifics.

This month, our Sherritt and Tembec bonds have been marked down approximately 15 points each on relatively low trading volume. These positions have contributed negative 150 basis points month-to-date, and leaves the bonds yielding close to 20 percent.

In the face of the current commodity market swoon and China growth concerns, Sherritt and Tembec—among other companies in the portfolio—possess the **staying power that protects the principal** of their bonds. This is the main requirement for bond yields to be realized, and makes these bonds very attractive at current prices.

Markets are inefficient and credit markets are no exception. We have been warning for some time that overall credit markets were expensive because of low interest rates and puny yields versus government bonds. Today, fears of low economic growth have driven negative performance in credit markets, but correspondingly **have also increased yields**.

Despite the Fund's recent negative return, the higher yields being offered by the market are the **opportunities we have been waiting for over the past few years**. While market volatility is difficult to predict, the prices of bonds we like are very cheap on a historical context.

The Fund's yield-to-maturity on a gross basis is currently over 10%. The fundamental valuation of our portfolio companies and the **contractual nature** of their bonds give us confidence that recent markdowns will be returned to the portfolio. The Fund's **low duration of 1.8 years** means that we expect many of these **markdowns to be returned in the nearer-term**.



Low duration also means that the Fund's upcoming slate of realizations stand to be **redeployed at attractive yields**. With the high expected stream of cash return plus a current cash weighting of 17.5 percent in the Fund, this is an opportune time for us to seed future performance.

Best regards,

Matt Shandro
President, Fulcra Asset Management Inc.

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