FULCRA
ASSET MANAGEMENT INC.

November 12, 2015

Fulcra Focused Yield Fund – October 2015 Update

After the high yield corporate bond markets' worst quarterly performance since 2011 and the prospect of the Federal Reserve raising interest rates at its December 16th meeting we thought it would be useful to provide investors with a brief update.

The Fulcra Focused Yield Fund gained 1.28% in October and as of November 10th the cash balance is 23 percent as a result of recent maturities and early redemptions.

With ample liquidity and a duration of 2.0 years, the Fund is well placed to minimize the volatility that may arise from a rise in interest rates and make the most of this outcome. Nevertheless, during these very uncertain times our focus will be on sourcing high quality corporate bond opportunities with short investment horizons and / or ample liquidity.

A few positive events in October worth noting include **Canexus**, **Visant** and **Weight Watchers**.

Canexus

The Fund benefited by 43 basis points in October from the recently announced agreement for Canexus to be acquired by Superior Plus Corp. The Fund initiated its Canexus position in January 2014 when the possibility of a dividend cut became evident due to the looming cost overruns of their crude-by-rail project, NATO. While NATO was noise to us, we saw compelling value in their core chemical business. In particular, Canexus's sodium chlorate facility in Brandon, Manitoba (Fulcra's article in the Financial Post) is the largest of its kind in North America and continues to accomplish record breaking profits.

With yields of 18 to 20 percent on the longer dated convertible bonds to an expected closing transaction date of July 2016, asset coverage well above the debt of the company, and the potential for a different buyer to emerge (under the low probability of an unsuccessful Superior bid), we find these bonds to be a compelling investment.

Visant

In mid-October, Visant entered into an agreement to be acquired by Jarden Corporation. Visant is a privately held company in the school graduation products business that we discovered through our work on American Achievement. We first purchased Visant's term loan in September 2014.

We viewed the transaction having little deal risk as Jarden has no operations in the graduation products business. Shortly after the Jarden announcement, we added to the Funds position in the Visant term loan. While we were expecting to own the term loan to the end of the year we were redeemed out of the position in the first week of November.

It is worth noting that as the Fund has historically experienced a very high early redemption rate for many of its investments, the stated duration of the Fund should be viewed as being higher than the actual or realized duration of the Fund.

Weight Watchers

We initiated a position in Weight Watchers term loan in December 2013 at a price in the mid-80s, a period when the emergence of alternative digital solutions such as FitBit began to have a significant negative impact on Weight Watchers customer base. With the typical Weight Watcher customer only subscribing to the service for 2-3 months the impact from this competitive threat was immediate.

Over the last 2 years, the term loan continued to drop in price as subscriber trends did not improve. Despite this, we added to our position in the term loan because of the very low valuation through the term loan, high free cash flow potential with low capex requirements, an effective process for weight loss, and a brand that has the potential to generate substantial royalty revenues.

With the recent announcement of Oprah Winfrey investing in the company, the term loan has risen in price and contributed 44 basis points to the Fund in October.

The Fund's exposure to company's directly involved in the **oil and gas sector** has dropped from 12.5 percent at the end of 2014 to 9.4 percent today. Furthermore, half of this weighting consists of leading service providers that possess strong asset coverage, business technology, scale and/or relationships to weather through the low commodity environment.

The Fund's **nimble size** allows us to take advantage of opportunities that other funds can't. One example is Energy Fuels $25M convertible bonds, which we have owned since January 2013. Although the price of uranium has yet to return to historic levels, we do not view these bonds as a typical commodity play as the working capital is double the total debt of company. The attractive asset coverage is what initially attracted us to these bonds; however, a minimum coupon of 8.5 percent that rises with an increase in uranium prices was a cheap option we couldn't refuse.

Please let us know if you have any questions or would like to discuss any holdings in greater detail. Thank you for your continued support.

Best regards,

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