February 16, 2016

Fulcra Credit Opportunities Fund – January 2016 Update

In light of our opportunistic nature and an increase in return prospects we have 3 developments with the Fund to mention. Firstly, the name of the Fund is being changed to the Fulcra Credit Opportunities Fund from the Fulcra Focused Yield Fund. Secondly, the performance hurdle rate will be adjusted to 7% from 5% to more accurately align our return expectations with investment prospects. And thirdly, investors in the Fund, starting in the first quarter of 2016, can elect to receive cash distributions on a quarterly basis.

During times of volatility, concerns can become magnified so it is imperative to know your investments well. Understanding the difference between mark to market volatility and permanent loss of capital **only** happens through due diligence.

The Fulcra Credit Opportunities Fund recorded a negative return of 0.98% in January and while this is below our expectations and due to many of the pressures stated above, we outperformed our peer group admirably.

We believe there are several exceptional opportunities presenting themselves in credit markets today. These are being created from the negative return prompted redemption cycle of ETF's and passive index-like mutual funds. When the prices of most corporate bonds are dropping in unison, and there is little distinction made between bonds in different sectors and/or quality – opportunity is nigh.

Below is a description of two bonds in the Fund that we added to during recent volatility.

Toys R Us 8.5% due December 2017 (2.60% weighting)

The bonds were issued in 2005 as a special purpose entity to buy and leaseback over 100 properties to the Toys R US parent company. Escalating lease rates outlined in the sales / lease agreement translates to the bonds being covered at a cap rate of approximately 12%.

Not only do these bonds provide strong asset coverage with a compelling margin of safety but we have believed an early refinancing of this security would be integral to a global refinancing of the company's entire capital structure. Our suspicions were recently confirmed when the company announced that it has commenced a process to refinance its capital structure in light of positive business momentum. Nevertheless, these bonds are priced at a yield to maturity of 13% with the improved prospects of earning 20 bps to the call date in March 2016.

Centric Health 8.625% due August 2018 (2.60% weighting)

We initiated our position in the bonds in the low $80's with a yield to maturity of 20% in May 2015. These bonds became attractive to us after management indicted a change in their strategy from growth to one of deleveraging the balance sheet. In November, Centric announced that it entered into an agreement to sell their physiotherapy, rehabilitation and medical assessment segments for $250M cash. While it seemed clear that the bonds would be taken out, it only traded up to the low $90's as a combination of market sentiment and being tightly held by a few large holders created an opportunity for us. We doubled our position, and on January 19, Centric announced an offer to purchase the bonds on February 18.

Best regards,

Matt Shandro
President, Fulcra Asset Management Inc.