April 14th, 2016

Fulcra Credit Opportunities Fund

Q1 2016 Commentary

We're happy to report that in Q1 2016, the Fulcra Credit Opportunities Fund returned 2.6%, culminating with our best month in our almost 7 year history in March. This puts us on track for what we believe is a very promising year with a yield of 9.8% at quarter end.

To say volatility returned to capital markets would be the understatement of the last 8 decades! In the first quarter of 2016, the S&P 500 was down over 10% at one point but rallied to finish positive. The previous occurrence: **the first quarter of 1933.**

Despite always being driven to deliver results, it is the future that we're focused on and as we've emphasized in many of our client meetings in the first quarter. It is in these dislocated markets that we think we come into our own. As the prices on so many bonds get diluted by odd lot trades or blanket downgrades that trigger forced selling, the pricing on credits we know well becomes even more compelling.

Many investors may run for the exit during periods of extreme volatility. Adding to existing or building new positions during these dislocations can be difficult to stomach. For the patient investor, the payoff is gained as the fundamental realities of the businesses validate our investments even during periods of market stress and disproportionate discounting. Through careful selection and both our opportunistic nature and our ability to be patient, we find rewards priced well in excess of the risks.

Tuckamore

On March 23rd the Fund's long held position in Tuckamore 8% bonds matured. Tuckamore is a good case study for our patient investing style. We first purchased the bonds in December 2013, and always viewed the Clearstream energy services business as the "crown jewel". Last fall, due to a large seller in the market, we managed to add to our position in the $50 to $60 range. At $185 million in size, many ETFs and larger competitors will not see this opportunity on their "radar".

Cenovus Energy

The oil and gas led turmoil of January and early February fanned by the rating agencies looking to downgrade some investment grade companies, created an environment where "quality" was on sale. It was unnecessary to "reach" lower down the credit quality spectrum when investment grade oil and gas producers with low costs, upstream (production) and downstream (processing / handling) operations and multiple years of liquidity started to trade like they were distressed (i.e. bonds trading in the $60s and $70s).

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As a result of our sector wide analysis of the oil and gas sector and our search for quality, we added Cenovus Energy 6.75% bonds to the portfolio in February. While Cenovus was not formally downgraded to non-investment grade, its' bonds traded like they were distressed. The bond carried an 8.8% current yield and 9.2% yield to maturity at purchase and has seen significant price appreciation since our buy.

Harland Clarke

A name we have owned for some time but added to during this bout of volatility was Harland Clarke 9.75% bonds due August 2018. As we have highlighted in recent presentations, our bonds were **upgraded** in November 2015, and despite this has traded approximately 10 points below where it was trading in the early Fall of 2015. We added to our position after the bonds dropped and were recently reminded why this is such an attractive bond. The company recently issued a notice to buy back some of the bonds at par through the "Free Cash Flow Sweep" covenant. While this type of covenant is uncommon, it nevertheless highlights both its utility when exercised, and strength of the company that supports it.

Here at Fulcra

As we previously mentioned in the January update, we made three changes to the structure of the Fund in the first quarter. Firstly we changed the name to the Fulcra Credit Opportunities Fund to better reflect the nature of the Fund. Secondly, we moved the performance hurdle on our most popular "B" Class from 5% to 7% to further enhance our competitive fees and thirdly, we introduced a quarterly cash distribution at the option of the holder.

In January 2016, we also added Justin Roach to the Fulcra team. Justin is a grey haired (much of it gained between 2008 and 2012), 24 year veteran of the Merrill Lynch institutional fixed income desk who's primarily role is business development/ client service but also adds invaluable investment experience to our team.

We are a firm focused specifically on fundamental credit due diligence, employ no leverage, avoid taking interest rate risk, and remove currency volatility with a fully hedged portfolio. We spend a lot of time on the names that we like, and our fundamental approach inherently employs a philosophy of patience. We continue to believe that the right credits bought at the right prices is the path to continued success of the Fulcra Credit Opportunities Fund.

Best regards,

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