FULCRA
ASSET MANAGEMENT INC.

January 19th, 2017

Fulcra Credit Opportunities Fund

Q4 2016 Commentary

2016 was an interesting year. Disastrous for some and fabulous for others. The evolution of the populist revolt was felt in full force globally and in investment management land the conversation seemed to be centred on the demise of the hedge fund[1] and the ongoing debate of active vs. passive management.

Equity markets gave us strong numbers in Canada (S&P/TSX up 21.1%), slightly less so in the U.S. (S&P 500 up 8.7% in C$ terms). Ten year treasuries were 21 basis points higher during the year on balance, but it all came over the last 2 months of the year as yields moved 57 basis points higher post Trump victory.

We are very pleased to report that the **Fulcra Credit Opportunities Fund was up 31.86% in 2016** and would like to highlight the many different sectors that were the source of those returns.

While we manage a concentrated portfolio versus our peers, it is paramount to stress the broad based nature of the appreciation of the fund. Close to **20 percentage points of the fund's gain came from our top 15 positions**. Sector wise, financial services accounted for 6.28% of the gain, followed closely by non-oil & gas energy at 5.64%, oil & gas energy/services 3.83%, forest products 3.45%, transportation 1.43%, with real estate, pharmaceuticals and retail combining for 2.99%. The fund also profited from a couple of tenders during the year one of which arose from Corus's acquisition of Shaw's media assets.

If you would like to discuss in more detail the specific companies that contributed to our performance, some of which we still own and like, please reach out to us.

[1] According to Hedge Fund Research, $51.5 billion of assets was pulled from hedge funds up to December of 2016.

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On to 2017

To us, 2017 looks like **a year of uncertainty and hence a year of opportunity**. Rates have started to rise south of the border and the new administration has grand spending plans. We enter the year with bond investors concerned over the impact of rising rates and equity investors expressing great hopes for various sectors.

With the high yield index[2] yielding a little below 6%, we **enter the year cautiously**. We think the key markers of the Fulcra Credit Opportunities fund will be real differentiators in the coming environment.

Our **duration at year end was 1.68 years** as we protect against rising rates eroding portfolio value. We held an above average cash balance of 20% at yearend to be ready for opportunities; so to not "scuttle" one opportunity for another. While equity markets have taken the 'Trump Trade' in stride, there is a growing concern that execution is more difficult than rhetoric and we want to be **prepared for market disappointment.**

2016 was a good year to highlight our conviction and nimbleness. These attributes that Fulcra was founded on will always be our differentiator as we strive to prudently generate above average absolute returns through credit markets. We remain ratings agnostic, unlevered and curious as we look for companies unloved by many. While always poised to deploy cash in **opportunities that can't be seen today**, the fund starts the year with a handful of evolving deep value positions that we are excited about.

Best regards,

Fulcra Asset Management Inc.

[2] Bank of America / Merrill Lynch Master II Index