

February 1st, 2018

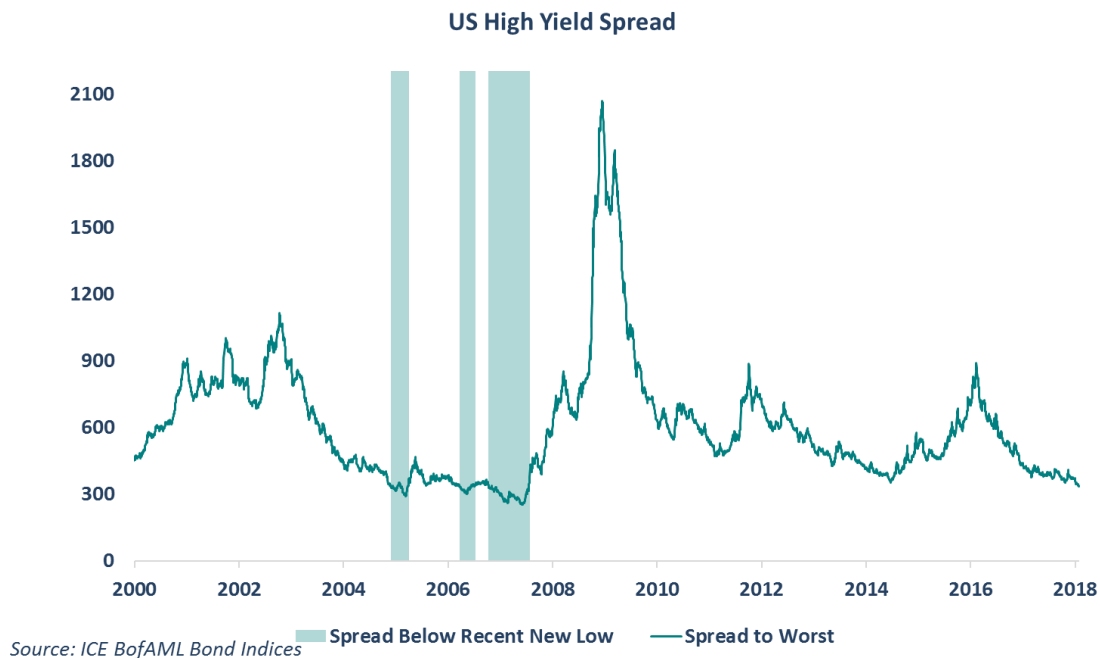
Fulcra Credit Opportunities Fund

Q4 2017 Commentary

The FCOF returned 9.94% in 2017 after fees¹. With a new year upon us and a market looking increasingly expensive, we feel it is important to be clear on the opportunities we think lie ahead.

Price is more important than yield. While the FCOF has achieved a return of 8.5% after fees since inception² we think it is important to remind investors that preservation of capital is our top priority.

We say this because the state of credit markets is, in our opinion, very expensive today. Evidence is in the graph below which indicates the extra yield (spread) US high yield corporate bonds have provided over government bonds for the last 17 years. As indicated through the shaded vertical areas, there have only been 400 days in the last 17 years where the high yield market has provided less incremental yield than today.



¹ Class B

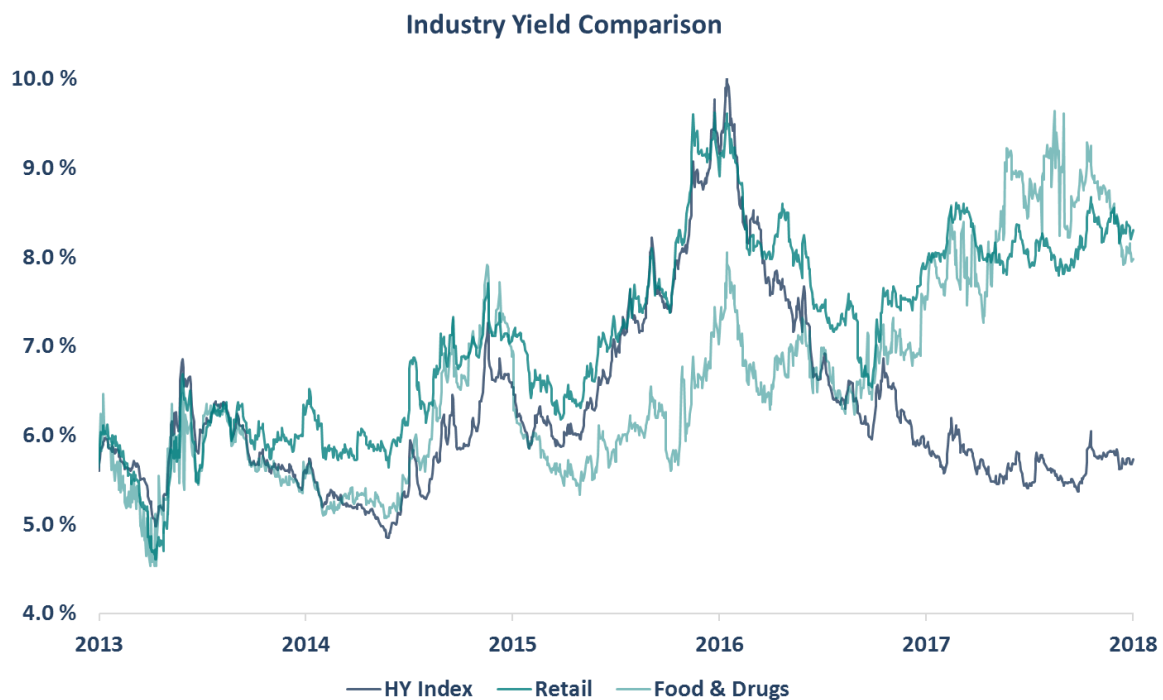
² July 2009

According to the IMF³, global growth should move higher with the recently announced US tax policy changes. This economic back drop provides great support for companies’ ability to service and refinance debt. Nevertheless, we believe corporate bond investors are paying too high a price for this economic comfort.

It is important to remember that corporate bonds are contractual obligations. After a company pays the costs of producing a good or service, SG&A expenses, interest payments on debt, and taxes paid to the government, equity holders are the direct beneficiaries of any incremental dollar of profit generated from a company...not bondholders.

All bond investors have is the coupon and the price they pay. When it comes to investing in credit markets, we believe it is critical to have the patience to wait for the right opportunity to maximize risk adjusted returns. In other words, there is no such thing as a bad bond, just a bad price.

While the overall market is expensive it doesn’t mean that certain companies or sectors can’t produce a signal that drives us to look for an opportunity. The Retail and Drug/Pharma sectors, as an example, currently provide an extra 240 basis points of yield over the index.



³ <http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

Whether it is the specific threat of Amazon or the broader online competitive threat, bricks and mortar retail stores' business models are under threat ... perceived or real. This doesn't mean that all these businesses will disappear. Some may close stores, sell assets and/or consolidate. While it will be difficult for some to survive others may thrive. As may be expected, this is an area of the market where we are spending some time looking for opportunities.

As we highlighted in our Q3 2017 commentary, the high yield corporate bond market is expensive. Three months later, that situation is even more acute. While any meaningful correction can in the short term be a mark to market pain, it creates opportunity. When you manage a concentrated portfolio you in many ways welcome an opportunity to add to your positions at better prices. What hampers many managers in these situations is their "fully invested" position. With a cash or "near" cash position of close to 30% in our portfolio, we feel we are well positioned for market volatility. Opportunities can present themselves in both cheap AND expensive markets, so it is important to be prepared.

As value investors, patience and analysis are important attributes to success. This may seem like just common sense. However, apparently cycling officials at the Tour de France just discovered these traits after admitting this past December that they incorrectly ejected Peter Sagan from the 2017 Tour de France⁴.

Best regards,

Fulcra Asset Management Inc.

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⁴ <http://www.uci.ch/pressreleases/uci-and-peter-sagan-relieved-end-legal-dispute/>