October 31, 2024

September 2024

(G)rate Expectations

Market Commentary:

At least Canada is leading the US in some things.

The Bank of Canada cut the overnight lending rate by 25 basis points ("bps") in each of June, July and September before the US Fed announced 50bps rate cut on September 18th.

Interest rate expectations are likely to be a main driver of asset valuations for the next several quarters as borrowing costs decline for indebted companies, banks benefit from a "re-inversion" of the risk-free rate curve and companies with large cash balances become less incentivized to hold on to their war chests.

If this sounds like a goldilocks scenario to you, credit markets agree. US investment grade index[1] credit spreads ended the third quarter in 2024 91 bps over treasuries while the US non-investment grade index[2] yielded 333 bps over the government curve.

To put that into historical perspective, the 10-year average investment grade index[1] spread as at the end of the third quarter in 2024 was at +126 bps and the 10-year average non-investment grade index[2] spread was at +448 bps.

If there is one thing history has taught us it is that security price valuations follow the moods of the market participants trading these securities. There is an ever-swinging pendulum between fear and greed or "risk-off" and "risk-on".

Patient investors can often be rewarded by taking the opposite approach to the crowd when the pendulum has swung too far negatively by focusing on the underlying asset value that supports the security being observed.

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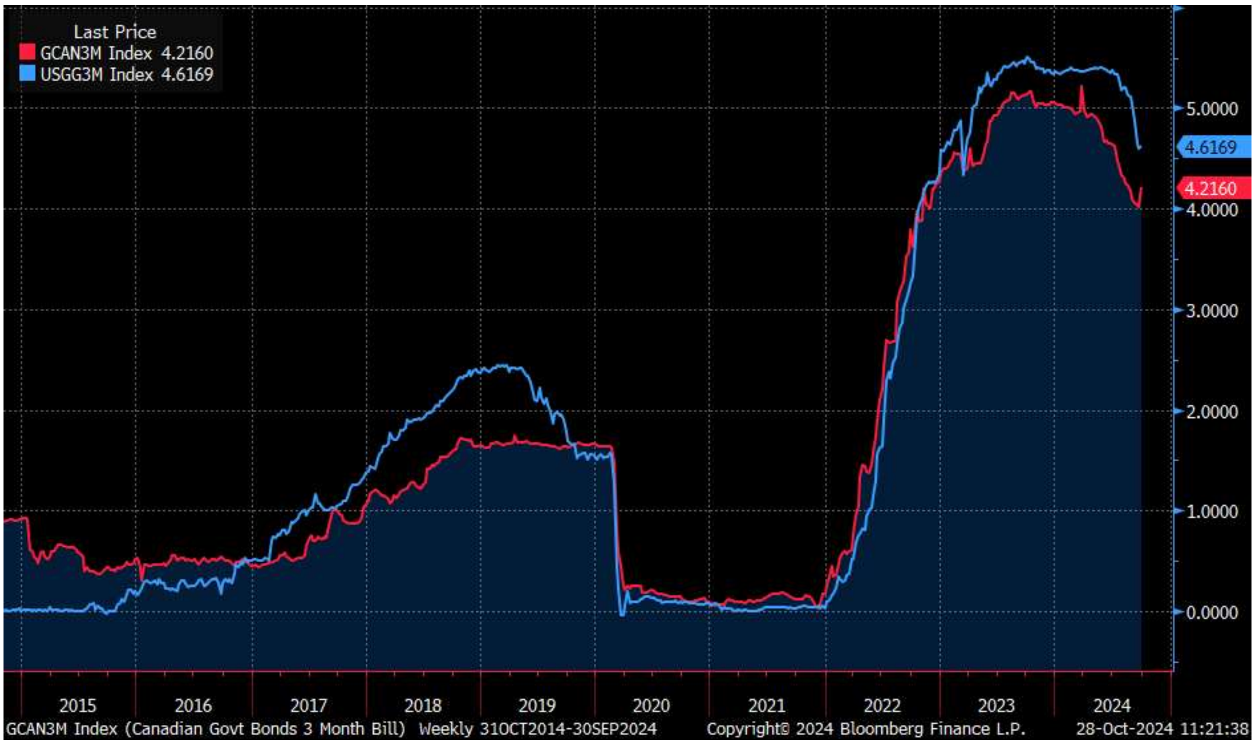
[1] Bloomberg US Corporate (Investment Grade) Index
[2] Bloomberg US corporate High Yield Index

Conversely, patient investors can be rewarded for not chasing a greedy market by maintaining high levels of liquidity (cash and short-term investments) and deploying capital only to attractively priced unique situations.

It is important to note that sitting on high cash balances has historically been a costly proposition for investors.

See below for historical 3-monthg bill rates for Canada (red) and America (blue).



Bloomberg LLP,2024.

However, cash does pay well today. As of September 30, 2024, Canadian 3-month government bills yielded 4.2% and U.S. 3-month T-bills yielded 4.6%.

Portfolio Update:

In the table below, we shed light on examples of investments the funds have made which take advantage of the current government yield curve.

These short-term bonds provide an additional yield over government bonds, the compensation for the credit risk, while returning capital to the fund in a short period of time to be deployed into new investment opportunities.

Bond	Currency	Credit Rating	Purchase Price	Purchase Date	Maturity / Call Date	Expected Holding Period (days)	Annualized Yield
CASCN 5.125% 2025	CAD	Ba3 / BB-	99.750	07-04-2024	01-15-2025	195	**5.6%**
F 6.777% 2025	CAD	Ba1 / BBB-	102.140	09-06-2024	09-15-2025	374	**4.6%**
RCICN 3.1% 2025	CAD	Baa3 / BBB-	99.135	08-29-2024	04-15-2025	229	**4.5%**
GCUNIV 4.125% 2024	USD	Ba1	98.250	08-08-2024	10-01-2024	54	**23.2%**
VETCN 5.625% 2025	USD	B3 / BB-	99.750	07-18-2024	03-15-2025	240	**6.0%**
WYNMAC 4.875% 2024	USD	B1 / BB-	99.750	08-19-2024	10-01-2024	43	**6.9%**

Bloomberg LLP,2024.

Looking Forward:

In the context of tight spreads or ("rich valuations") our play book for the current market environment remains the same: preserve liquidity, focus on the return of invested capital, and generate alpha by investing in special situations.

The fund's distressed positions have been a drag on performance year-to-date. We continue to believe in the underlying investment thesis and have, in-fact, opportunistically added to our position in Corus Entertainment.

Distressed debt investments can be more volatile than performing credit due to the lack of liquidity, lack of information and sensitivity to news headlines.

Throughout the history of Fulcra, distressed debt investments have been some of the top contributors to long-term performance.