FULCRA
ASSET MANAGEMENT INC.

Lysander - Fulcra Corporate Securities Fund
Q1 2018 Commentary

The weak performance of traditional bonds and stocks in the first quarter of 2018 made 2017 seem like such a distant memory.

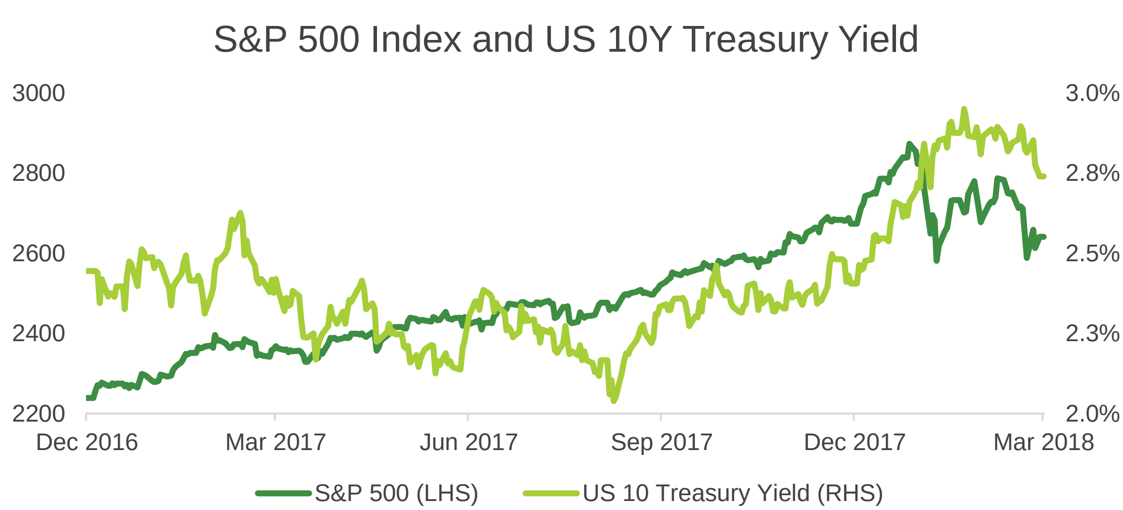
Looking back at 2017, the yield on the 10-year US Treasury bond began and finished the year less than 5 basis points apart, and this has only happened 3 other times in the last 55 years.

In 1992 when 10-year Treasuries only deviated 1.3 basis points over the year, the lowest variation since 1966, the No. 1 song on the Billboard Chart was “End of the Road” by Boyz II Men. Amazingly, the song had no influence over risk markets as the following year the S&P500 was up 9.97% and despite the obvious differences in song titles, Ed Sheeran’s top hit for 2017, “Shape of You”, does not possess any negative or positive stock market predictive powers for 2018… we trust this won’t surprise you.

The point in all this is that it is very difficult to predict the outcome of markets… even assuming you don’t look to song titles for clarity.

As market practitioners, our job is to listen to signals that are presented by the economy, companies, influencers and other participants and assess whether these risks are appropriately priced into the corporate securities we scrutinize.

The yield on the 10-year Treasury note, (which recently hit 3%), is often used as a proxy for the risk-free rate. It is also used as a valuation aid in discounting cash flows for the assessment of equity valuations. The graph below highlights the yield on the 10-year Treasury Yield over the last 15 months, versus the S&P500 Index.



Source: Bloomberg

The increase in inflation expectations in the first quarter of 2018 fueled a 33bps increase in 10-year Treasuries and reversed this seemingly skyward march of risk assets.

Below is the performance of Series F of the Lysander-Fulcra Corporate Securities Fund ("the Fund") versus some similar investment benchmarks over this period.

	3 Month	1 Year	Since Inception (Dec. 30, 2016)*
Lysander-Fulcra Corporate Securities Fund (Series F)	0.40%	6.85%	7.15%
Lysander-Fulcra Absolute Return Benchmark (annualized)	5%	5%	5%
FTSE TMX Canada All Corporate Bond Index	0.28%	1.81%	2.92%
Merrill Lynch US High Yield Master II Index (CAD)	-1.11%	3.06%	4.56%

As of March 31, 2018
** returns are annualized*

We frequently comment on positioning the portfolio to avoid interest rate driven volatility and this recent spike in interest rates helped adjust risk premiums higher in other areas of the market, evidenced by the negative returns of most asset classes.

Fulcra manages a single mandate. However, we do NOT think of ourselves as a one trick pony! The Fund employs various strategies/tactics to generate returns and mitigate risks. Many investors think low risk fixed income strategies are either long duration investment grade funds or short duration/low return money market funds. These "index" like methods of investing in fixed income securities are limited in their ability to protect against interest rate volatility and rarely generate inflation beating total returns.

The Fund was created to be focused on a limited number of total investments and embrace the flexibility to differentiate ourselves from benchmarks and our 'relative value' contemporaries. As a result, we define opportunities within five unique buckets or strategies excluding cash and equivalents. They can be defined as Quality Yield, Core, Event Driven, Opportunistic Value, and Deep Value.

- *Quality Yield* are short duration investment grade and "hard" yield to call high yield bonds.

- *Core* investments can be defined as bonds that possess little interest rate risk. There is a definable asset that protects us in the unlikely situation that the cash flow generation capability of the business is compromised.

- *Event Driven* bonds are associated with a company that is currently or prospectively pursuing an asset divestiture or merger/acquisition path.

- *Opportunistic Value* are bonds that were, in most cases, purchased well below par and issued by a company that, in our opinion, can successfully recover from the situation that created the opportunity.

- *Deep Value* bonds are those where the probability of bankruptcy or a consensual capital structure restructuring, and owning the pro forma equity, is reasonably high. We do not actively pursue these situations but may possess unique insight into an industry/ company that enables us to effectively assess the situation.

These strategies make up our tool box for superior, long term returns and we continue to be intently focused for situations that fit our criteria.

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