October 23rd, 2018

The Rise of the 3 Lettered Monster

Q3 performance of the Series F units of the Lysander-Fulcra Corporate Securities Fund (the "Fund") was relatively flat at 0.24% but intra quarter was quite volatile as the Fund benefitted in July (+0.94%) from its position in AIMIA, while August (-0.75%) saw much of that given back through our Rite Aid and Dundee preferred positions.

	3 Month	1 Year	Since Inception (Dec. 30, 2016)*
Lysander-Fulcra Corporate Securities Fund (Series F)	0.3%	4.1%	5.9%

As of September 30th, 2018
** returns are annualized*

In July, the Fund's position in AIMIA bonds and preferreds' benefitted, to the tune of 1.03%, from Air Canada and its bank partner's announcement to buy the Aeroplan loyalty program from AIMIA. In August however, detractors from the Fund's performance included the mutually agreed decision by Rite Aid and Albertson's to not pursue a merger and Dundee's management indicating on a Q2 call that they would consider issuing stock to meet the preferred's maturity in summer of 2019. This "conspired" to reduce the Fund's performance by 1.19% in August.

We used the strength in AIMIA's bonds and preferreds to trim our position during the 3rd quarter. With AIMIA bonds priced over $101 and the preferreds priced at an equivalent $88 we find the preferreds a more compelling investment given there are close to the bond equivalent of $10 in cumulative dividends owed. While Rite Aid bonds and Dundee preferreds both dropped in price during the quarter, we only added to our position in the Dundee preferreds.

We added to Dundee Series 5 preferreds after the 2nd quarter results conference call in August, when management reminded investors that the company can redeem the preferreds with stock at a floor value of $2 per Dundee Corp. share. While we choose to value the company's public and private investments cautiously, we believe there is value in these preferred securities.

FULCRA
ASSET MANAGEMENT INC.

<u>Watch out for the C.L.O. in your backyard</u>

This year, supply of US investment grade and non-investment grade corporate bonds has been weak. Investment grade issuance will in fact see its first annual decline since 2010 while high yield bonds will see almost a 30% year over year drop in issuance.

While supply of high yield and investment grade corporate bonds has dropped off this year demand has not. This has had the effect of driving spreads in high yield bonds close to their all-time lows.

Despite the drop off in fixed coupon bond issuance this year, it has been a boon for leveraged loans. When interest rates go up so does the coupon of loans, making them a very popular investment during times like today. With spreads low in corporate fixed income bonds and interest rates moving higher demand is strong for leveraged loans.

While retail investors' appetite for leveraged loans has increased over the last few years, the biggest driver of demand for leveraged loans are C.L.O.'s (Collateralized Loan Obligations), the step child of the 2008-2009 great recessions' C.D.O.'s (Collateralized Debt Obligations). While C.D.O.'s were considered by many the reason poor and even predatory residential mortgage underwriting could flourish. C.L.O.'s are considered to be the corporations' ticking time bomb equivalent.

The flag waving title of this commentary aside, we prefer to take a more pragmatic approach to looking at the real and perceived risks of the leveraged loan market. Yes, the percent of covenant lite loans, as a percentage of total loans, has increased dramatically over the last 6 years. However, our bigger concern is the current rise in rates which has the potential to squeeze company's cash flow by increasing the cost of debt which could lead to increasing default rates.

While participating in the senior part of the capital structure can offer better protection to investors than to junior bondholders, the increased issuance of loans versus bonds suggests that more leverage may now exist at the senior part of the capital structure. This is analogous to just reshuffling the deck chairs and may in fact create more volatility once the default cycle picks up as a greater proportion of a corporations debt exists in the form of loans.

C.L.O.'s as structured investment vehicles have guidelines (covenants) on what the manager of a C.L.O. can and cannot buy. For example, they are limited in owning a certain percentage of loans rated below "B-" and, in some cases, if the average price of the loans in the C.L.O. portfolio falls below a certain price, the C.L.O. cannot buy loans in the secondary market even if the manager thinks they represent good value. This can make C.L.O.'s somewhat inflexible to manage.

In other words, during periods of negative volatility the largest owner of loans, C.L.O.'s, will be unable to buy loans in the secondary market. A similar situation arose back in the spring of 2009 when the loans traded at a lower price than the bonds of the same company. Given that loans are senior to bonds in a company's capital structure, this should not happen, but it did because of the inflexibility of C.L.O.'s. This time around C.L.O.'s represents around 50% of the market for leveraged loans compared to approximately two thirds a decade ago. However, the emergence of retail investors participating in the leveraged loan space may not necessarily provide the diversity that the loan market needs and may in fact allow the 2009 experience to be repeated.

It is important to remember that the leveraged loan market is a small fraction of the size of the mortgage market so problems in loans won't necessarily transfer to the broader market. However, we do suspect that there is a reasonable probability that future opportunities for Fulcra may arise from the rigidity of C.L.O.'s and their inability to respond to volatility.

FULCRA ASSET MANAGEMENT INC.

Disclaimers

This document has been prepared by Fulcra Asset Management Inc. ("Fulcra") and not an invitation to invest in the Lysander-Fulcra Corporate Securities Fund (the "Fund"). This does not constitute a public offering of sale. Purchases in the Fund can only be made through an Investment Professional on the terms in a fund's simplified prospectus by qualified investors. Each purchaser of units in a fund may have statutory or contractual rights of action. The information in this document is subject to change without notice.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus or offering memorandum before investing. The indicated rates of return are based on calculated net asset values per unit, which are net of management fees, operating expenses, and applicable taxes. These returns include changes in unit value and reinvestment of all distributions and do not take into account certain fees such as redemption fees or optional charges or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Series F units are only available to eligible investors who have fee-based accounts with their dealer. Sales charges and trailing commissions are not payable on Series F units; however, investors may pay other fees to their dealer for investment advice and other services. Nothing in this document is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. This is a publication of Fulcra and has been prepared solely for information purposes. It is made available on an "as is" basis. Fulcra does not make any warranty or representation regarding the information.

Nothing in this presentation should be considered a recommendation to buy, sell or short a particular security. Any specific securities discussed are intended as an illustration of the portfolio manager's security selection process. The Funds may sell these securities at any time, or purchase securities that have previously been sold. The securities or short positions may increase or decrease in value after the date hereof, and the Funds may accordingly gain or lose money on the investment in the securities. The statements by the portfolio manager in their commentaries are intended to illustrate their approach in managing the funds and should not be relied upon for any other purpose.

This document may contain forward-looking statements. Statements concerning a Fund's or entity's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition are forward-looking statements. The words "believe", "expect", "anticipate", "estimate", "intend", "aims", "may", "will", "would" and similar expressions and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward- looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from current expectations. Readers are cautioned not to place undue reliance on these forward-looking statements. While Fulcra considers these risks and uncertainties to be reasonable based on information currently available, they may prove to be incorrect. The information in this document is subject to change without notice. Fulcra does not assume any duty to update any of the information.