January 21, 2019

Recency Bias to the Rescue

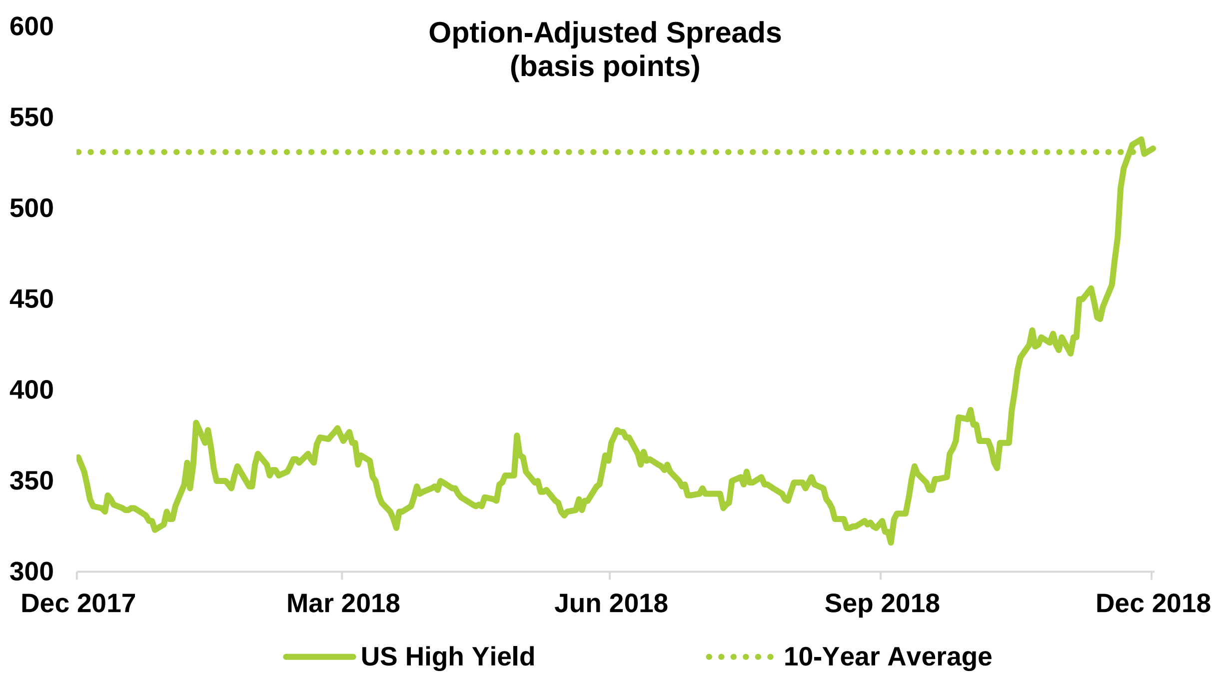
While the performance of Lysander-Fulcra Corporate Securities Fund (the "Fund") was relatively flat for the year 2018 (-0.6% and -0.1% for Series A and Series F units, respectively), the 4th quarter was a particularly challenging one for the Fund. The returns of Series A and Series F units of the Fund in the final quarter were -2.0% and -1.9%, respectively.

	1 Month	3 Months	YTD	1 Year	Since Inception (Dec 30, 2016)*
Series A	-0.9%	-2.0%	-0.6%	-0.6%	3.6%
Series F	-0.9%	-1.9%	-0.1%	-0.1%	4.2%

*As of December 31, 2018. Returns are annualized.

Recency bias, the behaviour of individuals putting greater emphasis on recent events than those in the distant past, seemed to be in force during the last few months of the year. As the decline in the price of risk assets from the end of the 3rd quarter continued well into December (i.e. S&P 500 down 18.9[1] percent from September 28th to December 24th), some investors appeared to have fixated on recent market decline and volatility and continued to sell their investments.

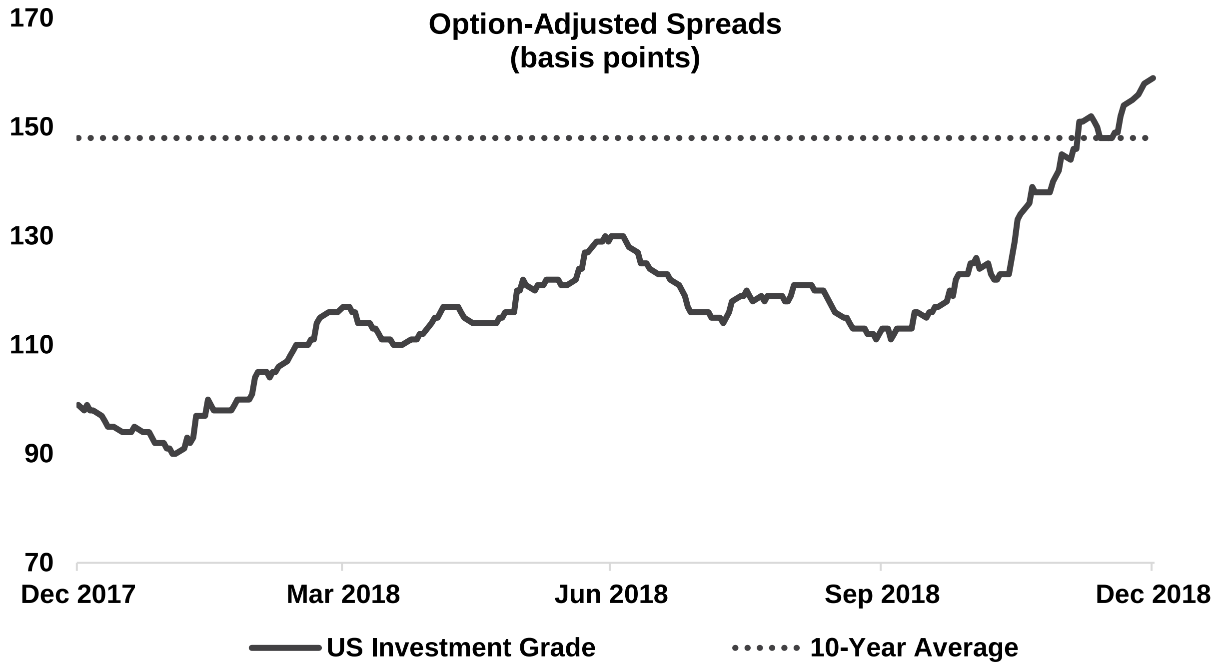
This was an opportunity for the Fund because the Fund was prepared – the Fund had sufficient cash in its portfolio to deploy upon the occurrence of market disruption. This was partly due to Fulcra's scepticism of the near-record small risk premiums (yield spread) that most corporate bonds offered.



Source: ICE BofAML Bond Indices

[1] Including dividends reinvested in the Index

FULCRA ASSET MANAGEMENT INC.



Source: ICE BofAML Bond Indices

With our scepticism turning into a buying withdrawal through the year, we focused on buying yield to call, short maturity, and tendered bonds. We believe these investments protect capital and provide an attractive return for a short period of 30 to 90 days.

What we saw as an idiosyncratic investment opportunity arrived during the 4th quarter, where there was broad-based sell off in the market and no security was immune. This provided the opportunity to buy more of some of our favourite bonds at very attractive prices and provided buying impetus. In the final quarter of 2018, eight of the Fund's top 15 positions had an aggregate -2.1% impact on the Fund's performance. We responded by buying more of every one of these eight bonds in the last 2 months of the year. The impact of this on the bond metrics of the Fund's portfolio was as follows:

At the end of the 3rd quarter, the Fund's portfolio had a current yield of 5.6%, yield to maturity of 5.8%, duration of 1.4 years and cash / government securities of 20.3%.

By the end of the 4th quarter, the Fund's portfolio had a current yield of 6.6%, yield to maturity of 8.2%, duration of 1.7 years and cash / government securities of 18.0%.

Cash continued to be a relatively large position in the Fund's portfolio at the end of the year, in part due to the early redemption (14 months before maturity) of the Fund's position in the Urban One 9.25% bonds, on December 20.

Urban One is a multi-media company focused on black culture in the United States. According to the company, Urban One is the largest distributor of urban content in the country. Several years ago, the company invested into a new hotel / casino business with MGM Resorts International. Urban One's stake in this business became valuable enough to use as collateral against a privately arranged bond, proceeds of which were used to retire the 9.25% bonds.

While not essential to an investment thesis, minority equity investments such as this can turn out to be sources of value that the market may not appreciate. What is particularly advantageous for us as an investor is that credit rating agencies generally do not ascribe value to these minority equity investments unless they generate some meaningful dividends. We are aware that many corporate bond investors would typically rely solely on the ratings from credit rating agencies and a simpleton cash flow multiple valuation to form their views of the bonds issued by a company.

This bond redemption by Urban One was executed in December when there was not one high yield bond issued in the US. The last time there was not a single high yield bond issued in a month was November 2008. In our view, this shows that good things can still happen in a "bad" market.

Despite the negative returns in the market, the Fund closed out what we considered a successful investment in Urban One and generated liquidity without having to sell its investments. The Urban One bonds illustrate that not all companies need "the market" to refinance their obligations and those that don't could be attractive investments for the Fund.

While capital markets ended 2018 with a thud, the start of 2019 has been the opposite; equity and high yield credit indices were up 6.63% and 3.92%, respectively[2]. The play of recency bias highlighted fearful behaviour of markets in December while highlighting the opposite in January. Call it "fear and greed" or "quant models rebalancing", short term market behaviour is noise but can create the fertile ground for which future returns can be reaped. Happy farming!

[2] Index close on December 31st, 2018 to close on January 18th, 2019. Equity index is S&P500 with dividends reinvested. High Yield Credit index is the Bank of America / Merrill Lynch Master II. Both in USD.

FULCRA
ASSET MANAGEMENT INC.

Disclaimers

This document has been prepared by Fulcra Asset Management Inc. (“Fulcra”) and is 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 the 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 simpolified prospectus 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. The views expressed are solely of the applicable portfolio manager.

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 Fund 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 Fund 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 Fund and should not be relied upon for any other purpose.

This document may contain forward-looking statements. Statements concerning the 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.

Any unauthorized use or disclosure is prohibited. Nothing herein should in any way be deemed to alter the legal rights and obligations contained in agreements between any ICE Data Services entity ("ICE") and their clients relating to any of the Indices or products or services described herein. The information provided by ICE and contained herein is subject to change without notice and does not constitute any form of representation or undertaking. ICE and its affiliates make no warranties whatsoever either express or implied as to merchantability fitness for a particular purpose or any other matter in connection with the information provided. Without limiting the foregoing ICE and its affiliates makes no representation or warranty that any information provided hereunder are complete or free from errors omissions or defects. All information provided by ICE is owned by or licensed to ICE.

FULCRA
ASSET MANAGEMENT INC.

ICE retains exclusive ownership of the ICE Indices including the ICE BofAML Indexes and the analytics used to create this analysis ICE may in its absolute discretion and without prior notice revise or terminate the ICE information Indices and analytics at any time. The information in this analysis is for internal use only and redistribution of this information to third parties is expressly prohibited.

Neither the analysis nor the information contained therein constitutes investment advice or an offer or an invitation to make an offer to buy or sell any securities or any options futures or other derivatives related to such securities. The information and calculations contained in this analysis have been obtained from a variety of sources including those other than ICE and ICE does not guarantee their accuracy. Prior to relying on any ICE information and/or the execution of a security trade based upon such ICE information you are advised to consult with your broker or other financial representative to verify pricing information. There is no assurance that hypothetical results will be equal to actual performance under any market conditions. THE ICE INFORMATION IS PROVIDED TO THE USERS "AS IS." NEITHER ICE NOR ITS AFFILIATES NOR ANY THIRD PARTY DATA PROVIDER WILL BE LIABLE TO ANY USER OR ANYONE ELSE FOR ANY INTERRUPTION INACCURACY ERROR OR OMISSION REGARDLESS OF CAUSE IN THE ICE INFORMATION OR FOR ANY DAMAGES RESULTING THEREFROM. In no event shall ICE or any of its affiliates employees officers directors or agents of any such persons have any liability to any person or entity relating to or arising out of this information analysis or the indices contained herein.