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FUNDS**



FULCRA

ASSET MANAGEMENT INC.

“Opacity Emerges in Private Credit”

Compared to the first two quarters of 2025, Q3 was relatively benign.

Credit market participants enjoyed low volatility as the Bloomberg US Corporate High Yield Bond Index spread over treasuries traded in a tight range (288-332 basis points). For reference, the low spread over the past 25 years has been 253 basis points, and the average spread has been 546 basis points¹.

Despite the strength in public equity and debt markets, red flags continued to emerge in private lending. We saw another large Canadian mortgage fund suspend redemptions at the end of August, and the MVIS US Business Development Companies Index, which tracks the US's largest Business Development Companies, posted its worst monthly total return (-7.3%) in the past three years in September¹.

The sudden collapse of subprime auto lender Tricolor Holdings and auto parts supplier First Brands, has been a wake-up call for credit investors. According to the US Department of Justice, both companies are under federal investigation for alleged fraud. Depending on the outcome of the ongoing federal investigations, if multi-billion-dollar investor losses, including those affecting private credit funds and major U.S. banks, are traced back to the alleged fraud, scrutiny is expected to intensify among risk managers and lending officers.”

These two situations serve as examples of reasons we avoid “owning the market”, participating in High Yield new issuance and the potential risk of owning private credit investments.

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Lysander-Fulcra Corporate
Securities Fund



Portfolio Update

Our large position in Nissan Canada Inc.'s ("**Nissan**") bonds matured on September 22nd. We purchased these bonds at the end of February after Nissan was downgraded from "investment grade" to "high yield," and forced selling from index funds, which provided an attractive opportunity to step in and buy.

In August, Telesat Corporation ("**Telesat**") bonds owned by Lysander-Fulcra Corporate Securities Fund rallied over 10% after Telesat's CEO noted on the company's Q2 earnings call that, while negotiations with creditors have not begun, Telesat may be in a position to engage with creditors in the near term, and a potential refinancing deal could be reached by the end of the year.

Telesat has several bonds outstanding that are held in a restricted group, which is linked to their declining Geostationary Earth Orbit ("GEO") business and does not have a direct claim on the higher growth Low Earth Orbit ("LEO") business. We believe this has contributed to weakness in the price of Telesat bonds over the past couple of years.

We continue to see value in Telesat bonds as a court-supervised bankruptcy will be challenging due to the *Telesat Canada Reorganization and Divestiture Act*. The Act provides that no legislation relating to the solvency or winding-up of a corporation applies to Telesat Canada, and in no case shall the affairs of Telesat Canada be wound up unless authorized by an Act of the Parliament of Canada. Also, Telesat will likely need ongoing funding to keep up with the growth of its LEO business, which in turn requires positive relations with capital markets participants.

Outlook

We continue to look for high-conviction investment opportunities outside of the commonly held securities in major indices, but remain of the view that being long credit at the index level is unattractive from a risk/reward standpoint.

Potentially, tighter lending conditions are coming; we expect new opportunities to arise in secondary credit markets. In the interim, we continue to maintain a balanced portfolio of idiosyncratic investments and liquid low-duration securities and are well-positioned to take advantage of any future market volatility.

¹ Bloomberg LP.



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