FULCRA ASSET MANAGEMENT INC.

June 2023

Data Dependent… Duh!

Over the last two years, from June 2021 to the end of June 2023, the US 2-year has risen from a yield of 25 bps to 4.9 percent! This rise, over a historically short period of time, off an extremely low base is a circumstance we've been tirelessly highlighting over the last year. Our apologies but we think the significance of this move can't be underestimated for investment opportunities today and into the near future. The Federal Reserve has been saying repeatedly that they are "data dependent" yet equity markets continue to seemingly operate under a suspended belief. Perhaps thinking that Mr. Powell et al. have their "downside" covered. Keep the faith until you can't.

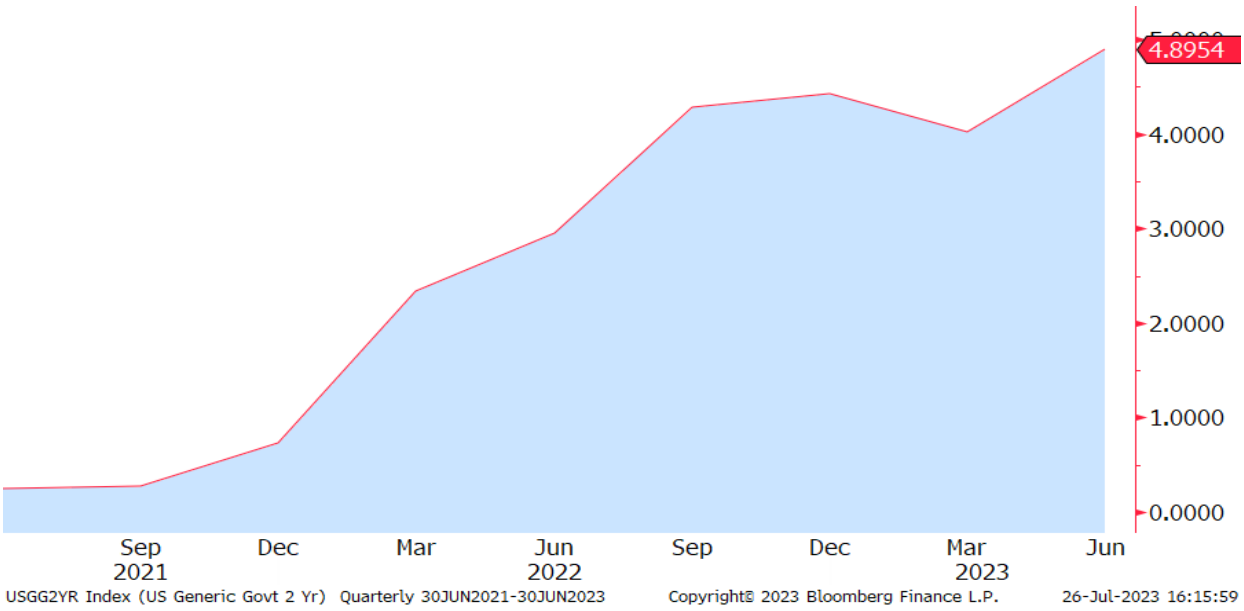
Not that a change in market attitude results in a shock like that of the Great Financial Crisis or Covid-19 pandemic, but more because investors have become aware of better value elsewhere. An informed impact on decision-making that, given the quick rise in interest rates could take some time to flush out.

The emergence of Artificial Intelligence as an accessible tool for productivity enhancement has clearly had an impact on the performance of equity markets thus far this year. In the first half of 2023, 81 percent of the S&P 500's increase came from 10 stocks (see table), and the top 20 stocks explained 92 percent.

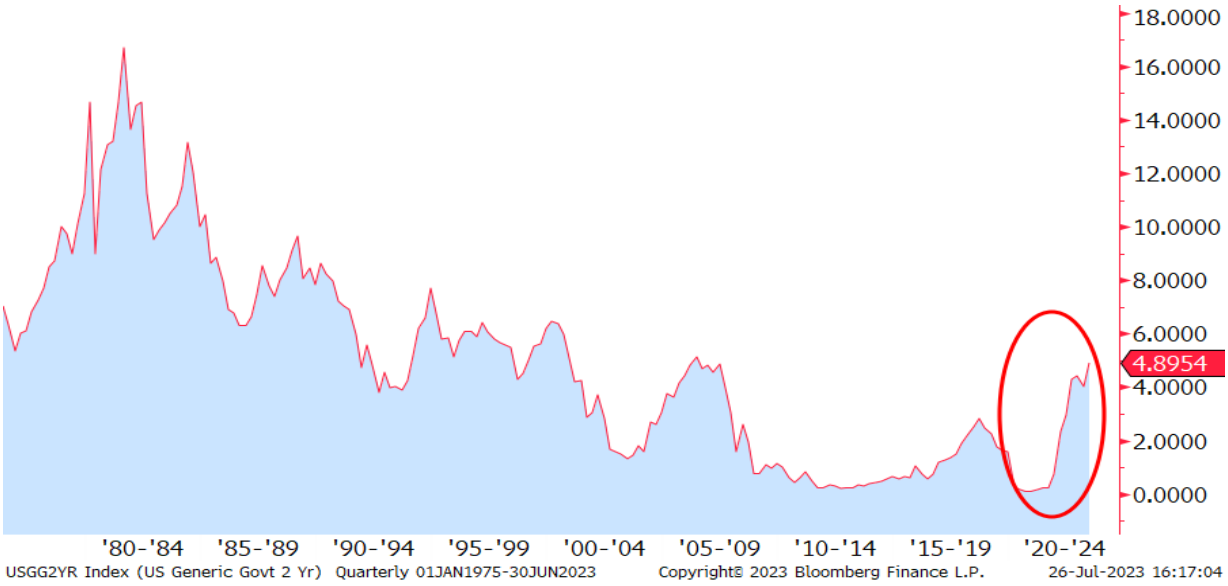
Not to take away from the generational impact some of these companies are having on our lives (and likely for years to come). Apple and Microsoft are the 2 largest companies in the S&P 500 as measured by market capitalization so how goes their stocks, so does the performance of the index. Nevertheless, investors should always be aware of an investment's valuation no matter how attractive or certain its prospects. In the graph below, the valuation of Apple and Microsoft, as measured by their Enterprise Value to Sales ratios has bounced back from a drop in multiple in 2022 to a level that is approaching their highest multiple in over 20 years.

As the 7th Edition of "Security Analysis" arrived in our office this past month, its release 15 years after the 6th, is a timely reminder of the importance of valuation. Can the prospects of Apple and Microsoft justify this valuation multiple? We don't know but even rock-solid investments like US Treasuries can be overpriced, remember?

US 2yr Treasury Yield – June '21 to June '23



US 2yr Treasury Yield – January '75 to June '23

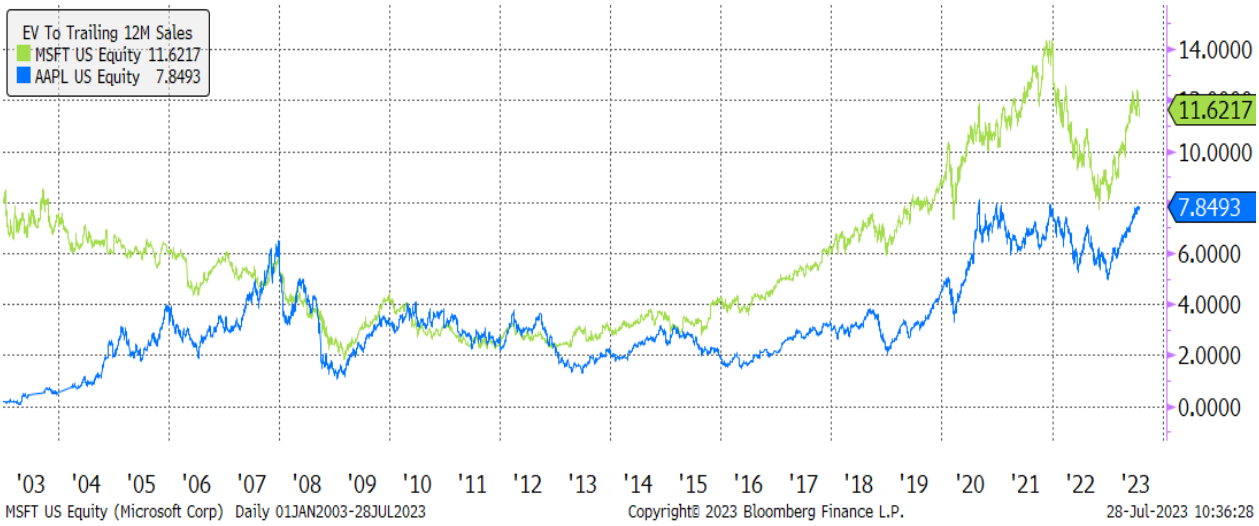


S&P 500 Index Top 20 Stocks to Index Performance - YTD to June 2023

	Company	Stock Price	$ Change	% Change	% of Index Move
1.	Apple Inc.	$ 193.97	$ 64.42	49.72 %	18.79 %
2.	Microsoft Corp	$ 340.54	$ 101.84	42.67 %	14.86 %
3.	NVIDIA Corp	$ 423.02	$ 276.92	189.54 %	13.40 %
4.	Amazon.com Inc	$ 130.36	$ 46.36	55.19 %	8.08 %
5.	Meta Platforms Inc	$ 286.98	$ 166.64	138.47 %	7.29 %
6.	Tesla Inc	$ 261.77	$ 138.59	112.51%	7.29 %
7.	Alphabet Inc	$ 119.70	$ 31.47	35.67 %	3.67 %
8.	Alphabet Inc	$ 120.97	$ 32.24	36.33 %	3.31 %
9.	Broadcom Inc	$ 867.43	$ 315.24	57.09 %	2.58 %
10.	Eli Lilly & Co	$ 468.98	$ 105.27	28.94 %	1.63 %
	TOP 10				**80.90 %**
11.	Advanced Micro Devices Inc	$ 113.91	$ 49.14	75.87 %	1.55 %
12.	Salesforce Inc	$ 211.26	$ 78.67	59.33 %	1.54 %
13.	Adobe Inc	$ 488.99	$ 152.46	45.30 %	1.37 %
14.	Netlflix Inc	$ 440.49	$ 145.61	49.38 %	1.27 %
15.	Oracle Corp	$ 119.09	$ 37.99	46.85 %	1.14 %
16.	Berkshire Hathaway Inc	$ 341.00	$ 32.10	10.39 %	1.13 %
17.	Visa Inc	$ 237.48	$ 30.53	14.75 %	0.97 %
18.	General Electric Co	$ 109.85	$ 44.53	68.16 %	0.95 %
19.	Applied Materials Inc	$ 144.54	$ 47.64	49.16 %	0.80 %
20.	Mastercard Inc	$ 393.30	$ 46.68	13.47 %	0.77 %
	TOP 20				**92.39 %**

Source: Bloomberg LLP

Enterprise Value to Sales – 20 Year History of Apple and Microsoft



Under the Hood

Speculation isn't our business. We like to get our hands dirty. Event-driven and idiosyncratic high-yield situations is the Fund's focus and the prospect for this pool of opportunities to grow is expected to be high over the next 12 to 36 months as companies look to refinance, restructure, and/or pursue M&A in an environment where the cost of capital is substantially higher.

Example of an idiosyncratic situation is that of EG Global Finance PLC ("EG"), a private independent convenience retailer in the UK, US, Europe and Australia. The Fund first built a position in two of the company's bonds late last year and added to them in the 2nd quarter at a yield of more than 10 percent with a duration of approximately two years.

The opportunity that we saw in EG bonds:

- Private valuation vs. public peers is very attractive
- Debt stack clustered around 2–3-year maturity
- Multiple asset sale options to delever and increase ability to refinance remainder debt

On the back of higher interest rates, we believe many high-yield companies will be more inclined to refinance upcoming maturities with existing holders. The environment of the past euphoric demand for anything providing attractive incremental yield over low government yields, no longer exists.

For all companies, a like for like bond refinancing will be more costly. There are, however, a multitude of ways to avoid or minimize this increased cost. Besides the obvious permanent paydown of debt, providing more security, which can take a variety of forms, will likely be a required feature of many company refinancings.

The merits of a company will be much more important to the buyer than the incremental yield and implied diversification that they provide. The fund's focus on event-driven and short duration credit puts the fund in a very good position to negotiate directly with existing corporate bond issuers that we are strongly inclined to add or continue to have exposure to.