

YTM Capital Credit Opportunities Fund: Looking Back 5 Years

When the Fund commenced investing in July 2015, predicting – even remotely – the tumult of the next 5 years would have been impossible. In addition to COVID-19, markets experienced significant volatility. We appreciate the trust of our investors throughout this stormy period.

Concerns about China's slowing economy and devalued currency drove an equity market sell-off at the end of 2015 into 2016. Brexit added to volatility and later in the year Trump's election victory first roiled and then boosted markets heading into 2017. Trump's trade war started in March 2018 and has been an issue since, taking credit and equity markets along for the ride – especially in the 4th quarter of 2018. These events culminated in slowing global growth in 2019 and then the global health crisis.

Credit spreads leading into COVID-19 fluctuated between 0.88% and 1.90% – significant moves in the context of the credit market – let alone the COVID-19 move that was more violent and rapid than the 08/09 Credit Crunch.



Barclays Canada Aggregate Index - Corporate Unhedged TR Index Source: Bloomberg

Even with volatility, economic performance during the 56 months leading up to COVID-19 was positive with growth on both sides of the border and strong employment. This economic performance caused the Canadian and U.S. central banks to raise rates steadily until the end of 2018. Credit and equity markets put in a strong performance with the latter touching records at the start of 2020.

How have investors fared?

This generally positive, if volatile, environment that ended with the impact of COVID-19 has resulted in disappointing returns for traditional fund investors. Annualized returns for 5 years ending June 30, 2020 were 4.15% for the FTSE Canada Universe Bond Index and 4.42% for the S&P/TSX Composite Index.

Alternative credit strategies provide the potential for resiliency during volatile and uncertain times. This potential is borne out by the Fund's return of 7.50%. And, compared to 6 private Canadian hedge funds that employ an investment grade-focused credit strategy, the Fund had the highest return and the highest Sharpe Ratio over the last 5 years.

YTM successfully navigated the last 5 years by adhering to two core strategies:

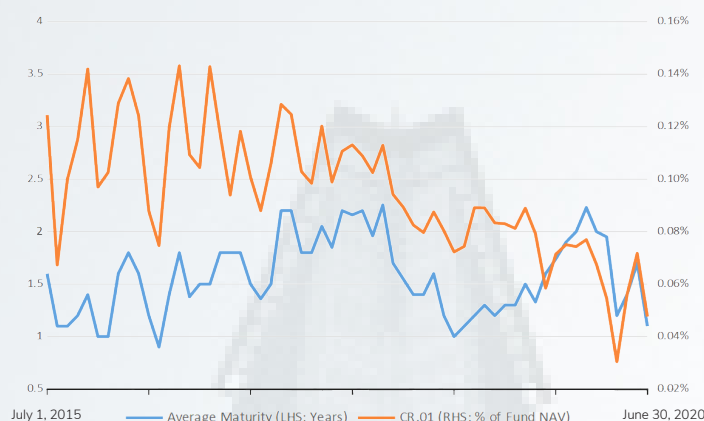
1. YTM Capital is focused on capital preservation.

The portfolio managers of the Fund, Daniel Child and Karl Burnham, are wired to limit downside risk. Each spent his formative bond trading years in bank-owned dealers where detailed risk management is fundamental. Each became a Head Corporate Trader and successfully discharged that role for many years. With their engrained protective bent and combined 50 years of portfolio management and corporate bond trading, the PMs are uniquely positioned to protect the Fund's capital.

2. YTM Capital is focused on short-term bond investing.

Short-term bonds have more favourable risk / return characteristics compared to other bonds. Less time to maturity means that short-term bonds are subject to less downgrade and default risk. In other words, market participants are more comfortable forecasting an issuer's fortunes over shorter time periods. Because short-term bonds have a lower risk profile, they inherently have less price volatility. And they are often more liquid.

The Fund's sensitivity to credit spreads (CR.01) and portfolio maturity over the period demonstrate these strategies.



What's ahead?

We are not alone in hoping for a speedy economic recovery and an effective vaccine. But, in our view, risk markets have gotten ahead of themselves by solely pricing in a fast "V" shape recovery, without taking into account any other outcomes. We are trading cautiously, adding risk selectively. Despite our overarching concern, credit still has the potential for positive returns based on the current state of spreads. And, we believe that our core strategies make our target of 7% - 9% over the next 5 years achievable. We are grateful for the support of our investors and look forward to continuing to earn that support.