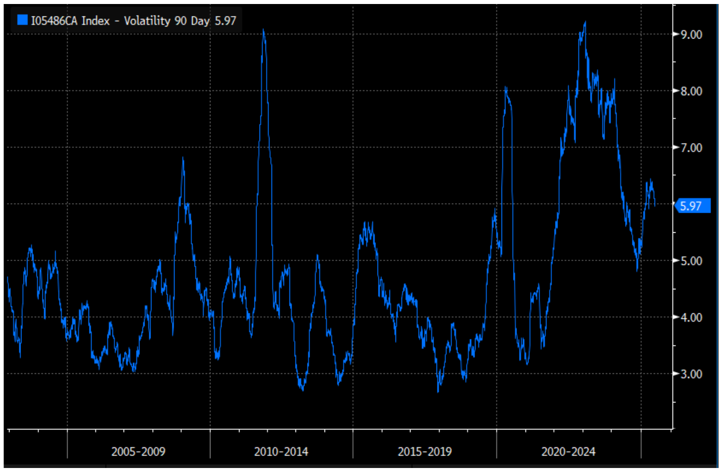
YTM Credit: 10 Years of Outperformance

Public fixed income markets have generated historic volatility over the last 10 years. From central bank rate increases in 2015 for the first time in 9 years, to the COVID shock in 2020, and to the inflation of 2022 that prompted the fastest rate hikes in decades, fixed income's reputation for providing the steady foundation of a 60/40 portfolio is in tatters.



90 Day Rolling Vol, Bloomberg Canada Agg TR Index, Source: Bloomberg

Volatility was driven by geopolitical and economic events that forced central bank actions. The Federal Reserve and the Bank of Canda took decisive steps on an unprecedented scale, focused on rapid and substantial interest rate changes, quantitative easing that included non-government bonds, and providing liquidity facilities.

These actions, combined with an increased emphasis on forward guidance and an effort to set market expectations, have upended fixed income markets. Monetary policy now dominates fixed income returns, much more than credit fundamentals or inflation expectations.

This secular shift coincided with the end of 30 years of falling rates from 1990 to 2020. That multi-decade rate rally propelled fixed income to strong returns. At today's relatively low level of rates, fixed income investors will not experience a similar tailwind any time soon.

Fixed income investors are faced with two challenges – continued volatility in a climate of outright uncertainty and no prospect of a sustained falling rate environment. Said another way, interest rate gyrations are going to determine the future success of long-only fixed income investors. There are investment options, however, that sidestep interest rate volatility.

Hedge the Volatility

Traditional long-only fixed income funds live and die with interest rate movements.

YTM Capital Credit Opportunities Fund is a credit fund that invests in debt issued by the strongest companies in Canada. The Fund removes virtually all interest rate risk by selling Government of Canda bonds short. This hedging strategy not only removes interest rate risk, it isolates significantly less volatile corporate credit exposure. Combined with our credit market expertise, our bias to capital preservation, our focus on short term bonds, and our determination to stay on style, the Fund has delivered superior returns since inception.

Through the last 10 years of volatility, the Fund's track record shines relative to both the FTSE Canada Bond Universe Index, a proxy for long-only traditional investing, and to actively managed long-only fixed income funds. ***The Fund outperformed all but one long-only traditional bond fund over the last 10 years on return.***

This performance was delivered with low risk. The Fund's standard deviation since inception is 4.50%, which is less than the FTSE Bond Index at 5.19%.

Adding the two concepts together, the Sharpe Ratio is used to measure risk-adjusted returns. ***The Fund's Sharpe Ratio of 1.07 beat every long-only fixed income fund in Canada but one over the last 10 years.***

The next 10 years

The Fund has a strategy that is repeatable and that works through all types of markets.

We remain committed to executing the strategy without drift. And, the fact that we employ a made-in-Canada, invest-in-Canada method insulates the Fund from some of the uncertainty swirling south of the border.

How does the Fund fit in your fixed income portfolio?

There will be periods when long-only traditional bond funds provide meaningful returns. By adding a credit fund to supplement long-only funds, investors are unlocking an important source of diversification – the Fund had a low correlation of 0.23 to FTSE Bond Index since inception – and potential returns.

If the last 10 years are any guide, investors who add the Fund to their portfolio are positioning themselves for better returns and lower risk.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	SI
Fund	16.17	11.33	3.64	5.86	1.18	6.65	-5.39	11.32	10.51	6.28	**6.60**
FTSE Bond	5.87	0.01	0.75	7.37	7.90	-2.42	-11.38	3.15	3.42	6.13	**1.83**

Performance from July 1, 2015 to June 30, 2025, with annual figures presented as the 12 months ending June 30th. SI = Since Inception on July 1, 2015. Canadian long-only pure fixed income funds are represented by 300+ mutual funds and ETFs (Series F or equivalent) in a public market, non-alternative fixed income category in Morningstar's Canadian database with CAD exposure. Fund returns are Class F, distributions reinvested. FTSE Bond = FTSE Canada Universe Bond Index. Sharpe Ratio is calculated using a 3 month GOC T-Bill as the risk free rate. This document is for information only and is not intended to solicit orders for the Fund. Investors should read the Offering Memorandum (OM), including the risk section before investing. You can obtain the OM from YTM Capital Asset Management Ltd. Fund data will change and past performance may not be repeated. There is no guarantee the Fund will provide returns similar to its target. Performance is net of fees and expenses, is for Class F, Initial Series, distributions reinvested, and the SI figure is annualized. **www.ytmcapital.com**

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