

YTM Capital's Case for Credit, in pictures

An **exceptional opportunity in Canadian investment grade credit is available today**, as demonstrated by the pictures below.

There is a certain comfort in the safety of short-term, public, investment grade credit, without exposure to interest rates. Intuitively it is low risk, while it offers a compelling expected return - resulting in an asymmetric risk profile.

Blue chip corporations rely on the bond markets for funding, and are careful to maintain their credit quality for optimal access. By managing their debt levels and capital structure through the robust economic cycle, these companies are now prepared for a potential slowdown. Recall that Credit quality is not reliant upon growth trajectories or equity valuations. This issuer preparedness supports the conclusion that **credit spreads will remain resilient**.

The pictures below demonstrate that investment grade corporate bond spreads are **robust** and reflect too much pessimism for the current environment, making them a better investment opportunity than most asset classes. The quality and the running yield of YTM's credit funds offer an exceptional **risk-adjusted and absolute return profile**, something you can't often say about an investment created to be "a better fixed income solution."

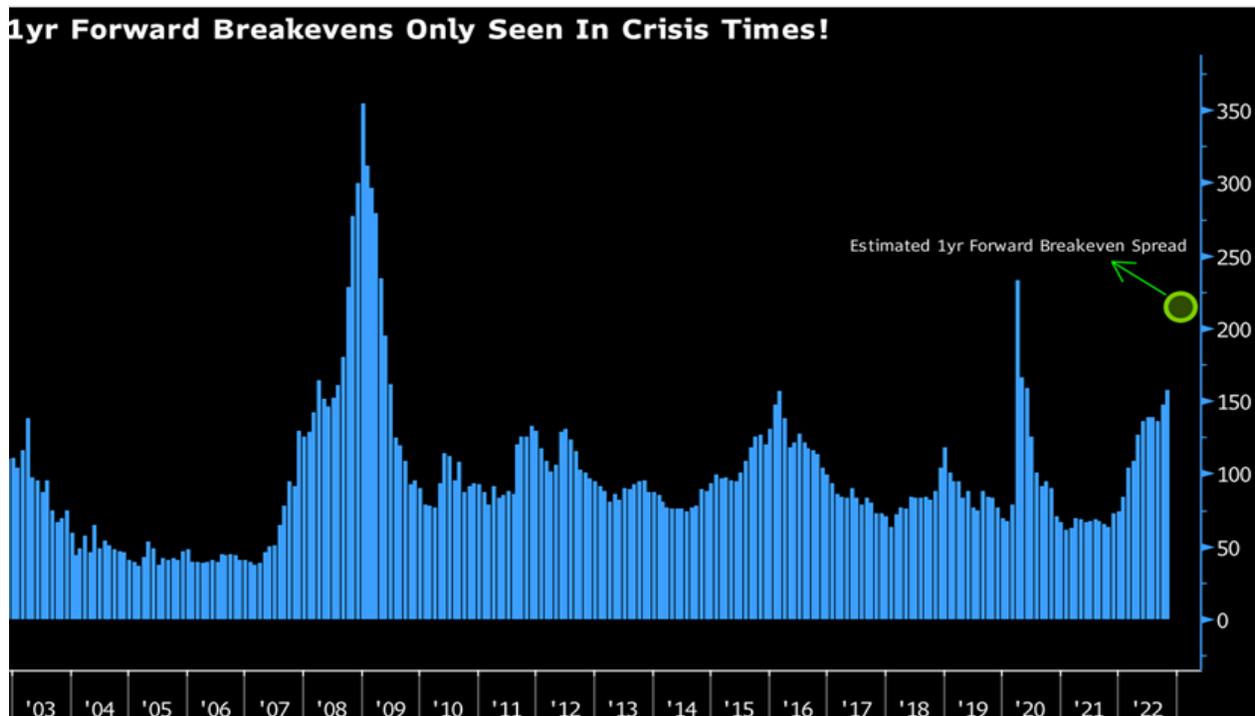


Exhibit 1: Monthly closing levels for the Bloomberg 1-5 Year Investment Grade Spread Index. The green dot represents the 1 year forward spread breakeven (approximated by spread / modified duration), which shows how much spreads could widen in the next year and our OM fund still make money. This breakeven level is truly exceptional on a historical basis, and therefore unlikely.



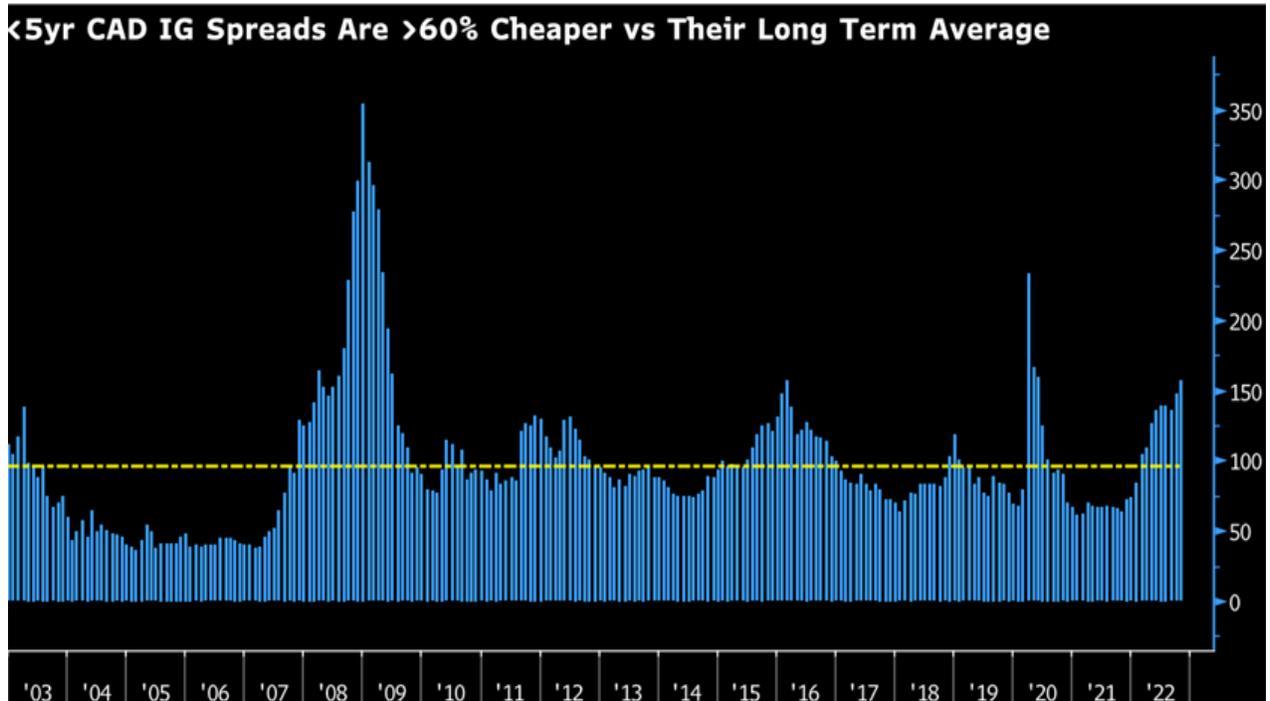


Exhibit 2: Monthly closing spread levels for the 1-5yr Bloomberg IG Index vs. long-term average. Over the long term, CAD spreads exhibit mean-reverting behaviour, which implies significant potential for capital appreciation from current valuations.

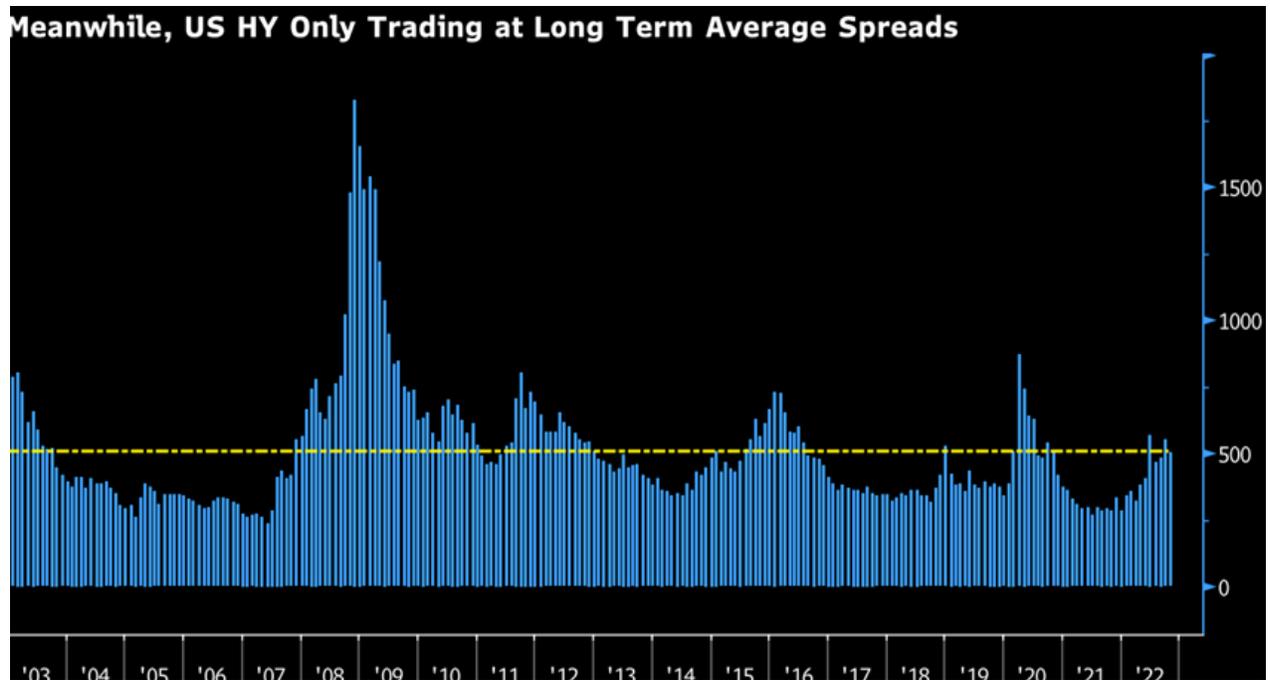


Exhibit 3: Monthly closing spread levels for Bloomberg US High Yield Index vs long-term average. Short CAD IG spreads at ~60% vs long-term average (Exhibit 2) makes CAD IG far more interesting than High Yield at these relative valuations, with higher quality and lower risk.



Credit more compelling than Long-only Fixed Income

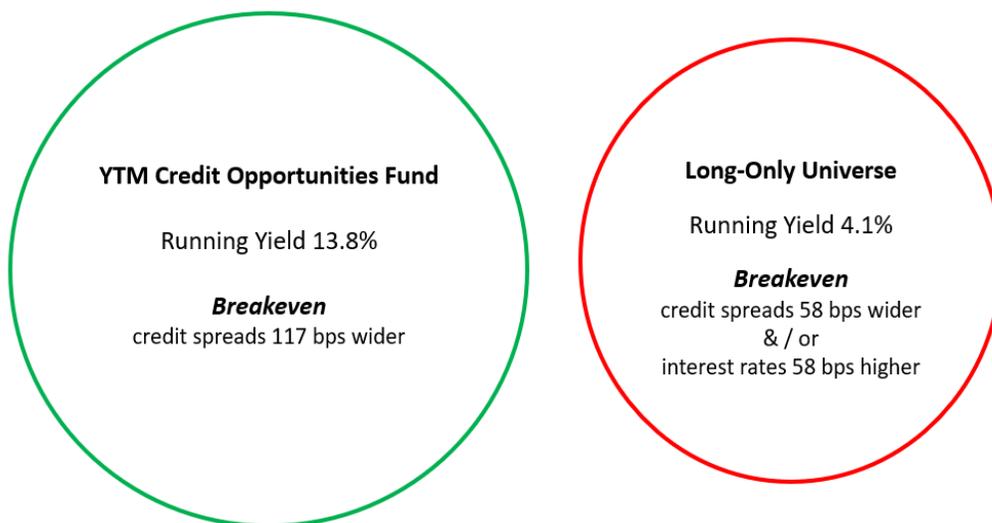


Exhibit 4: The current running yield in our OM Fund will produce a strong return if; (in the next 12 months) spreads stay the same on average → a higher return if credit spreads tighten → and a positive return if spreads widen by up to 117 bps. Both the running yield and the break-even buffer are notably much higher than the Fixed Income universe (as represented by Bloomberg Barclay's Canadian Bond Universe Index).



Exhibit 5: Simple example of an asymmetric opportunity.





Exhibit 6: Default probability model for RBC. Default risk is a measure of credit quality, recognizing that Investment Grade default is highly unlikely. The level of current credit spreads is inconsistent with the credit risk of IG issuers - we believe that too much pessimism has already been priced in.

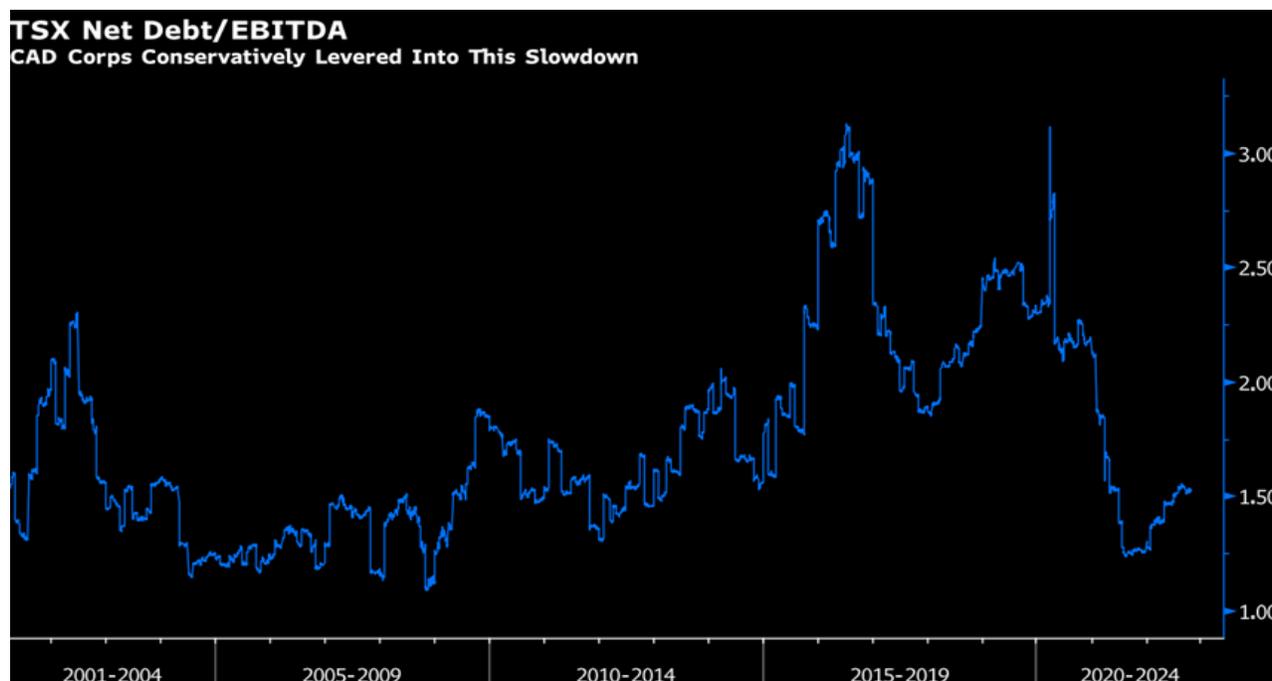


Exhibit 7: Historical evolution of Net Debt/EBITDA for Canadian issuers listed on the TSX. High quality Canadian corporate borrowers are still high quality, and provide a resilient investment thesis for a low-vol, low-risk strategy.



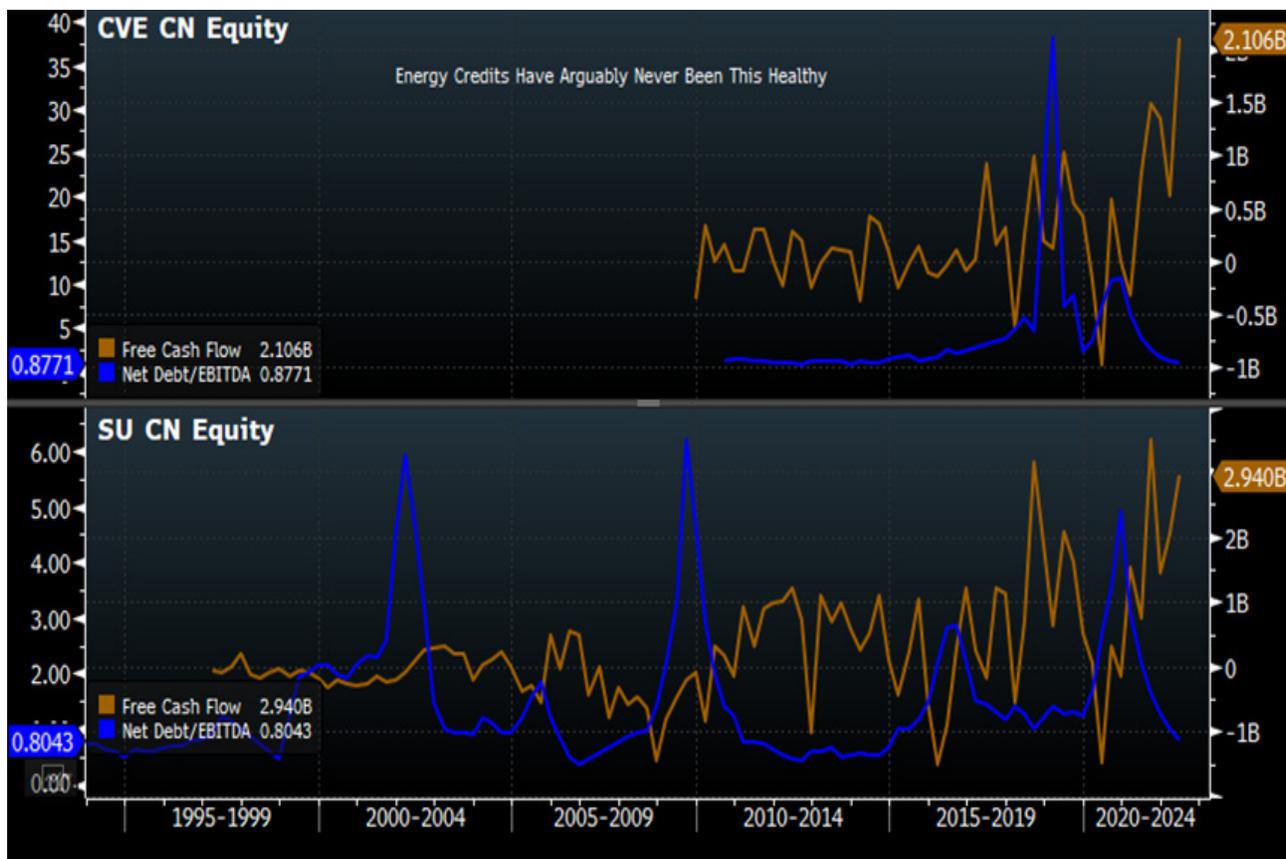


Exhibit 8: Free cash flow generation and Net Debt / EBITDA for Cenovus and Suncor. Demonstrates how the credit stories in certain Canadian names / sectors (particularly energy) have never been stronger. This is an example of the basis for relative value positioning within YTM Funds.

In summary:

- **Canadian short-term, investment grade credit is resilient**, providing the basis for a compelling investment solution, with an arguably asymmetric credit spread path based on both fundamentals and historical valuations.
- The expected and potential return available from an investment grade credit strategy is **likely the best risk-adjusted return available today** and may even be the best absolute return opportunity too.
- The high running-yield available in YTM Capital credit funds naturally **de-risks the downside of expected returns**.

The source of information for each chart is Bloomberg and data is of October 28, 2022. Past performance and risk may not be repeated and fund data, including running yield, changes. Read the Offering Memorandum or Fund Facts document of a YTM Fund and speak to your investment advisor before investing. You can obtain these documents from YTM Capital Asset Management Ltd. or here: www.ytmcapital.com