April 10, 2017

LOGiQ Credit Opportunities Fund

Fund Manager(s): Sandy Liang, President, LOGiQ Capital Partners Inc.

Commentary

The Fund returned 3.3% in the first quarter of 2017 compared with 1.9% return for the high yield ETF hedged to Canadian dollars (XHY) and a 2.3% return in the high yield ETF (HYG). Since its inception in June 2014 the Fund has cumulatively returned 32.1% (10.6% annualized) compared with 6.3% (2.2% annualized) for XHY and 7.0% (2.5% annualized) for HYG, a period that includes both a downturn and an upturn for credit markets.

We believe that the Fund has achieved its returns with significantly less risk than the high yield debt market, which in turn has significantly less risk than equity markets (one-third less volatility in high yield vs equities, historically). The Fund has had a high cash position this year to date and has had approximately half of its capital invested in our researched top high yield debt holdings. The Fund's asset mix continues to be targeted towards conviction high yield bond holdings that collectively have a weighted average yield in the 10% area. Thus the internal yield of the Fund is in the 5% area given that roughly half of the asset mix is in high yield debt. The underlying research theme among our high yield debt names is asset value protection – the company assets or company value provides us with a significant cushion as a lender. We also strive to be the most senior debt in a company's capital structure or have little debt ahead of us in the capital structure.

One of the more significant investment themes in the Fund has been the change in regulatory environment in the U.S. with the new Administration elected in November 2016. We have debt and equity investments in the non-prime consumer lending segment that will benefit directly from less of a regulatory quagmire from the CFPB (Consumer Finance Protection Bureau) which was largely directed by the Obama Administration. The Fund currently has multiple positions (debt and equity) in issuers whose earnings outlook will directly benefit from changes in the CFPB as the Trump Administration is actively seeking a way to restructure the agency. Our investments in the sector include debt and/or equity in issuers including Enova International (ENVA) and Curo Financial Technologies (a privately-held company with US$470 million in bonds outstanding).

In the course of first quarter 2017 the Fund lowered its weighting in a number of investments that benefited directly from a higher interest rate environment beginning in the second half of 2016. These investments included a short position in 10-year Canadian government bonds and a long position in certain higher quality rate-reset preferred equity shares of Canadian issuers including Manulife Financial, TransCanada Corporation and Power Financial Corp. Recent pause notwithstanding, we continue to believe over a longer time period the direction of interest rates over the next 12-24 months is higher commensurate with various consumer, producer and wage inflation measures. We intend to continue trading around our core positions in investments that benefit directly from higher interest rates.

Yearend earnings season is officially over and 1Q 2017 earnings season is around the corner. Our top names performed especially well in 2016 yearend earnings report. Some of our top issuers that exceeded expectations included **Bi-Lo Holdings** (grocery store operator in the southern U.S. with 746 stores), **Enova International** (U.S. and U.K. consumer lender) and **VistaJet** (private jet operator). We continue to be a bottom-up, research-focused investment manager so that earnings results of individual holdings are an important input in our process.

We would characterize the investing environment as "Goldilocks" in nature – with robust U.S. economic growth combined with low interest rates. Equity volatility, a coincident measure of risk in financial markets, remains low which to some participants indicates the potential for higher risk in the future but is a situation that can also be sustained for longer periods absent surprises in the market outlook. Low equity volatility is correlated with firm high yield debt markets.

The U.S. economy continues to be on firm footing and there is no indication there will be a recession any time soon.

This is a very important component of our investment outlook. The equity strategists at RBC Capital Markets recently looked at six indicators which characterized the last seven recessions and concluded that none of them were in recessionary territory, compared with past recessions in which an average of five out of six were in recessionary territory (refer to chart below from the Investment Strategy Playbook, April 2017). In recent commentaries we have discussed U.S. initial jobless claims and various confidence measures that bode well for the strength of the economy. The RBC data support our view that the U.S. economy remains on firm footing which is positive for corporate credit quality and returns on high yielding corporate debt.

Forward-Looking Statements: This commentary contains certain "forward-looking statements" within the meaning of such statements under applicable securities law. Forward-looking statements are frequently characterized by words such as "plan", "continue", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur. These statements are only predictions. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this commentary. Forward-looking statements are based on the

Fund Facts

Inception:	July 15, 2014
NAVPS:	$10.24 (Series A)
Total Assets:	$19.6 million
Management Fees:	1.85% (Series A), 0.85% (Series F)

Fund Codes

CAD	Prescribed OM
Series A AHF780	(BC, NB, NS, NL)
Series F AHF 781	Series A AHF785
Series I AHF782	Series F AHF786

Contact your LOGiQ Asset Sales Team: 77 King Street West, Suite 2110, PO Box 92 Toronto, ON M5K 1G8
Tel: 1(800)-513-3868 OR (416) 583-2300 / funds@logiqasset.com / www.logiqasset.com