

Corton Enhanced Income Fund

December 31, 2025

Annual Management Report of Fund  
Performance

## **Corton Enhanced Income Fund**

### **Management Report of Fund Performance**

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Corton Enhanced Income Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-822-1171, by writing to Corton Capital Inc. (the "Manager") at, 21 Summer Breeze, Carrying Place, Ontario K0K 1L0 or by visiting our website at [www.cortoncapital.ca](http://www.cortoncapital.ca) or SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). Unitholders may also contact us using one of these methods to request a copy of the Fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure."

#### **Forward looking statement**

This document includes certain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates and the effects on floating rate obligations, currency exchange rates, credit spreads, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed in the Fund's prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in a Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

### **Management Discussion of Fund Performance**

#### **Investment Objective and Strategies**

The Fund's investment objective is to provide Unitholders with a high level of current income by investing in a diversified portfolio of European and U.S. floating rate collateralized loan obligations (or a "CLO"). The Fund will focus on delivering current income and preservation of investor capital, with capital appreciation as a secondary objective.

At least 60% of the CLOs the Fund invests in will be AAA-rated, by a nationally recognized rating agency, at the time of purchase and may also include AA or A-rated securities. The Fund

may purchase CLOs in both the primary and secondary markets.

A CLO is an actively managed vehicle backed by a highly diversified pool of broadly syndicated corporate loans that are senior in terms of priority and are secured by assets of the underlying obligor.

The Fund intends to actively manage its foreign exchange exposure by using forward contracts, swaps (including cross currency basis swaps) and/or hold foreign currency to hedge its non-Canadian dollar exposure at all times.

## **Risk**

The Fund is classified as Low risk in accordance with the standardized risk classification methodology mandated by National Instrument 81-102 Appendix F. This classification is based on historical volatility of a reference index, the Palmer Square CLO Senior Debt Index, as the Fund does not have at least ten years of performance history. The reference index is expected to reasonably approximate the Fund's standard deviation for the ten year period.

There were no material changes in the Fund's investment strategy, identified risks, or to the Fund's investment risk level during the reporting period.

## **Results of Operations**

For the year ended December 31, 2025, the Fund returned 3.27%, including distributions paid to unitholders. By comparison, the Palmer Square EUR CLO Senior Debt Index (the "Index") returned 3.70% for the same period, on a total return basis.

The difference in performance between the Fund and the Index during the period (-0.43%) was primarily attributable to the management expense ratio (-1.06%). Positive contributors to performance (0.63%) include security selection and rating allocation, including a preference for A-rated securities over AA-rated, and modest spread tightening in AAA-rated securities toward the end of the period. These positive factors were partially offset by periods of spread widening, portfolio repositioning, and increased market volatility during the second half of the year, which negatively impacted valuations for certain holdings.

The Palmer Square EUR CLO Senior Debt Index is a rules-based observable pricing and total return index for CLO debt for sale in Europe, rated at the time of issuance as AAA or AA, or an equivalent rating. Such debt is often referred to as the senior tranches of a CLO. The Index contains over 700 CLOs, each of which are allocated based on market value weighting and rebalanced at the close of the last business day of each month.

The Palmer Square EUR CLO Senior Debt Index is used as a benchmark as it reflects the performance of a diversified portfolio of investment-grade CLO securities in Europe, which is broadly consistent with the Fund's investment mandate.

The Fund's performance may differ from that of the Index due to active management decisions, including security selection, allocation across CLO tranches and credit ratings, and portfolio positioning in response to market conditions. The Fund also employs currency hedging strategies, whereas the Index does not reflect the impact of such hedging.

In addition, the Index is a rules-based, market value-weighted index and does not reflect the impact of fees, expenses, or trading costs, which are borne by the Fund. As a result, the Fund's returns may differ from those of the Index.

Units outstanding increased to 1,146,000 on September 30, 2025. Starting in October to the end of the reporting period, the Fund experienced a series of redemptions totaling 390,000 units, ending the period with 756,000 units issued and outstanding. Portfolio rebalancing to meet redemptions resulted in four securities increasing beyond 10% of net assets, as shown in the Top 25 Positions table. Higher allocation to individual securities may reduce diversification and could impact the Fund's ability to efficiently adjust positions under certain market conditions, thereby increasing concentration and liquidity risk.

These risks were mitigated by the high credit quality of the affected securities, with three of the positions being AAA-rated. This resulted in the Fund holding 61.2% in AAA-rated securities at the end of the period, exceeding its investment strategy target of at least 60%.

### **Portfolio Manager Commentary**

During the year ended December 31, 2025, global financial markets experienced periods of volatility driven by macroeconomic and geopolitical developments. Notably, changes in U.S. trade policy and continued uncertainty regarding the path of inflation and monetary policy contributed to fluctuating market sentiment. While volatility persisted into the second half of the year, market conditions became more stable, supported by resilient economic data and moderating inflation expectations.

The European collateralized loan obligation ("CLO") market remained active during the year, with strong issuance levels supported by favourable refinancing and reset activity. However, primary issuance moderated in the second half of the year as liability costs remained elevated and arbitrage conditions tightened. Secondary market activity reflected changing supply and demand dynamics, with periods of spread widening linked to geopolitical developments and idiosyncratic credit events.

In the secondary market, AAA-rated CLO tranches exhibited relatively stable spread levels for much of the year, with modest tightening observed toward year end. Investment grade mezzanine tranches (AA to BBB) generated income and experienced spread tightening during certain periods, supported in part by investor demand. However, increased dispersion in underlying loan performance and isolated credit events contributed to volatility in the latter part of the year.

During the third quarter, market participants observed a divergence in loan prices between performing and stressed issuers, reflecting increased concerns regarding credit fundamentals in certain sectors. High-profile credit events contributed to broader scrutiny of weaker credits and resulted in periods of spread widening and price volatility across CLO tranches. These developments negatively impacted valuations for certain holdings and contributed to variability in the Fund's net asset value during the second half of the year.

In response to changing market conditions, the Manager adjusted portfolio positioning by increasing exposure to shorter-dated CLO tranches, particularly within A-rated securities. These positions generally exhibited lower sensitivity to spread widening relative to longer-dated tranches and contributed to mitigating volatility within the portfolio. The Fund maintained its allocation limits outlined in the Fund’s investment objectives, with a continued preference for A-rated securities over AA-rated securities based on relative value considerations.

The Manager also focused on investments in CLO tranches that were outside their reinvestment periods, which reduced exposure to changes in underlying loan portfolios and helped manage mark-to-market volatility. This positioning was maintained throughout the year and contributed to managing liquidity requirements and overall portfolio risk.

Despite periods of volatility, technical factors, including investor demand for floating-rate assets, provided support for senior CLO tranches. Default rates in underlying loan portfolios increased modestly during the year but remained below long-term historical averages.

The above commentary reflects the views and opinions of the Manager as of the date of this report, based on market conditions during the period, and is subject to the same assumptions, risks and uncertainties described in the “Forward looking statement” section of this report. Such commentary should not be construed as statements of fact or guarantees of future performance.

## **Recent Developments**

Effective June 6, 2025, David Steele, resigned as a member and Chair of the Fund’s Independent Review Committee (the “IRC”). The IRC continued to operate in accordance with the requirements of National Instrument 81-107 – Independent Review Committee for Investment Funds. Following the resignation, the Manager appointed Jason Currie as a member and Chair of the IRC effective August 13, 2025. Jason Currie is independent of the Manager and the Fund and possesses the relevant experience and qualifications to serve as an IRC member. The IRC currently consists of three members: Jason Currie, Kelly Burke and John Corley.

On February 5, 2025, Corton Capital Inc. announced a consolidation of the Class ETF units of the Fund at a ratio of 1:2.5; a reduction in the management fee from 0.70% per annum to 0.45% per annum, and a change in the frequency of distributions of the Fund from quarterly to monthly. Please refer to the February 5, 2025 press release for additional information.

An Amended and Restated Simplified Prospectus dated February 1, 2025 was filed on February 6, 2025 and a second Amended and Restated Simplified Prospectus dated August 22, 2025 was filed on August 26, 2025.

## **Related Party Transactions**

### **Manager, Portfolio Adviser and Sub-Adviser**

The Manager, trustee and portfolio adviser to the Fund is Corton Capital Inc., 21 Summer Breeze, Carrying Place, Ontario K0K 1L0; the portfolio sub-adviser to the Fund is Astra Asset Management UK Ltd (“Astra”) of the United Kingdom. The Manager is a related party to the Fund, and any

management fees paid to the Manager is a related party transaction. Management fees are discussed below.

### **Fees and Expenses**

The Fund incurred expenses and fees during the period of \$ 348,044. Fees include the following operating and administrative expenses of the Fund including but not limited to: Registrar, Transfer Agent, and Custodian services; TSX listing fees, market making fees; IRC committee member fees and expenses in connection with the IRC; expenses related to compliance with NI 81-107; fees payable to the auditors and legal advisors of the Fund; regulatory filing, stock exchange and licensing fees and CDS fees. During this period, the Manager elected to waive or absorb \$216,983 of expenses that would have otherwise been charged to the Fund. The Manager may elect to change or discontinue absorbing or waiving any portion of the Fund's expenses or management fees at any time without notice.

### **Other Transactions**

Related entities of the Manager, including officers and directors, may invest in units of the Fund from time to time, and on the same basis as arm's length investors. As at December 31, 2025, no related entities, officers and directors owned units of the Fund.

### **IRC Disclosure**

The Independent Review Committee ("IRC") reviews conflict of interest matters referred by the Manager in accordance with NI 81-107. During the period, the IRC provided positive recommendations and approvals for all conflict of interest matters. Where applicable, the Manager relied on standing instructions provided by the IRC and the Manager complied with all conditions imposed by the IRC. Additional information about the IRC is available in the prospectus and in the IRC Report to Securityholders.

No instances of non-compliance were identified.

### **Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past two years.

#### **The Fund's Net Assets Per Unit <sup>(1)</sup>**

	<b>2024 <sup>(4)</sup></b>	<b>2025</b>
<b>Net Assets per Unit, beginning of period</b>	\$0.00	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.14	\$0.87
Realized gains (losses) for the period	\$0.00	(1.08)
Unrealized gains (losses) for the period	\$0.02	1.18
Total Expenses (excluding distributions)	(\$0.03)	(0.23)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$0.13	\$0.74

<b>Distributions:</b>		
From net investment income (excluding dividends) <sup>(3)</sup>	\$0.07	\$0.76
From capital gains	\$0.00 <sup>(5)</sup>	\$0.00
<b>Total annual distributions</b>	<b>\$0.07</b>	<b>\$0.76</b>
<b>Net Assets per Unit at December 31 of year shown</b>	<b>\$10.00</b>	<b>\$25.06</b>

- (1) This information is derived from the Fund's audited annual financial statements. The figures in the table have been rounded to the nearest penny and may include rounding errors. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in note 10 to the financial statements. This difference is due to the different treatment of certain expenses for financial reporting purposes.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (3) Distributions were paid in cash.
- (4) For the partial year from commencement of operations on September 17, 2024 to December 31, 2024.
- (5) The distribution attributable to capital gains rounds to less than \$0.01 per unit.

#### Ratios and Supplemental Data

	2024	2025
Total Net Asset Value (\$) <sup>(1)</sup>	\$23,208,977	\$18,945,363
Number of units outstanding <sup>(1)</sup>	2,320,000	756,000
Management Expense Ratio <sup>(2)</sup>	1.03%	1.06%
Management expense ratio before waivers or absorptions <sup>(2)</sup>	2.69%	1.94%
Trading expense ratio <sup>(3)</sup>	0.00%	0.00%
Portfolio turnover ratio <sup>(4)</sup>	0.00%	78.34%
Net Asset Value per unit	\$10.00	\$25.06
Closing market price	\$25.23 <sup>(5)</sup>	\$25.11

- (1) This information is provided as at December 31st of the year shown.
- (2) Management expense ratio is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) and is expressed as an annualized percentage of daily average net asset value for the stated period. The effect of the Manager absorbing a portion of the Fund's expenses, increases the net return to individual unitholders.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value for the stated period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (5) On February 5, 2025, Corton Capital Inc. announced a consolidation of the Class ETF units of the Fund at a ratio of 1:2.5 (ie. 2.5 pre-consolidation units for 1 new consolidation unit). The TSX closing

market price history reflects the consolidation and therefore, the December 31, 2024 closing market price shows an adjusted \$25.23.

### Management Fees

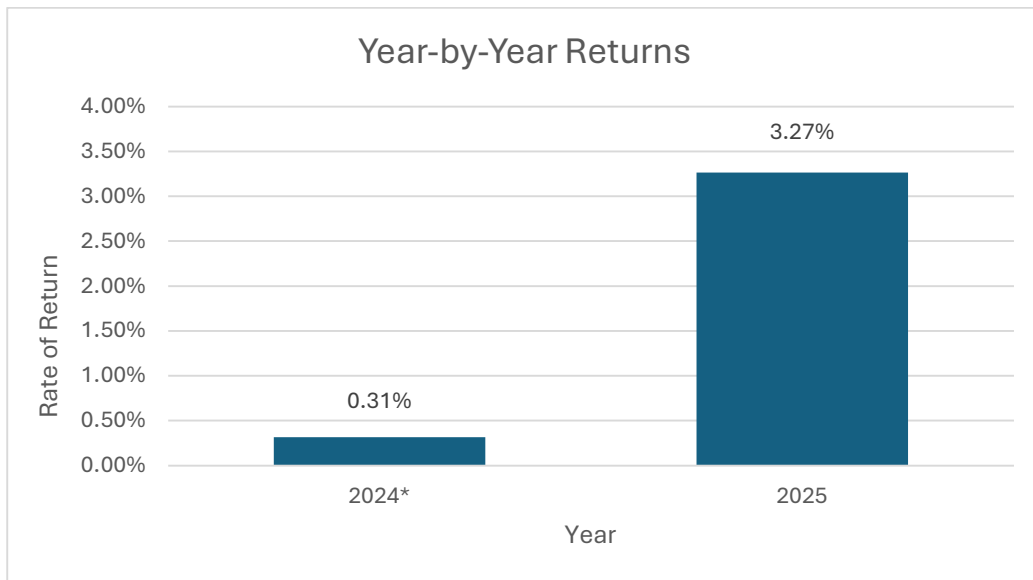
The Manager charged an annual management fee of 0.70% from January 1 to January 31; effective February 1, 2025, the management fee was reduced to 0.45% of the net asset value of the ETF Units, accrued daily and generally paid monthly in arrears. These management fees were received by the Manager for the day-to-day operations of the Fund, including managing the portfolio, maintaining portfolio systems used to manage the Fund, and providing all other services including marketing and promotion. For the year ended December 31, 2025, the Fund incurred \$129,066 in management fees.

### Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. The performance information does not take into trading commissions or other optional charges that would have reduced returns or performance. Past performance does not indicate how the Fund may perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund’s annual performance for each of the years shown, and illustrates how the performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year<sup>1</sup> would have grown or decreased by the last day of each financial year.



\*The Fund commenced operations on September 17, 2024.

### Annual Compound Returns

The following table presents the Fund’s annual compound total return since inception to December 31, 2025, along with a comparable market index. The table is not intended to reflect

future values of the Fund or future returns on investments in the Fund and is used only to illustrate the effects of the compound rate of growth.

	1 Year	Since Inception*
Corton Enhanced Income Fund ETF	3.27%	2.68%
Palmer Square EUR CLO Senior Debt Index (ECLOSE)	3.70%	4.05%

\*The Fund commenced operations on September 17, 2024. The Index is presented for the same time period as the Fund.

## Summary of Investment Portfolio

### Top 25 Positions (as at December 31, 2025)

Security	Percentage of Net Asset Value, CAD\$
<b>Collateralized Loan Obligations (“CLOs”)</b>	
Adagio XII Eur Clo DAC, Series 'X', Class 'A', Floating Rate, Callable	8.52%
Ares European CLO XX DAC, Series '20X', Class 'A', Floating Rate, Callable	8.52%
Bain Capital Euro CLO 2019-1 DAC, Series '1X', Class 'C', Floating Rate, Callable	3.07%
Barings Euro CLO 2019-2 DAC, Series '2X', Class 'CR', Floating Rate, Callable	12.77%
Barings Euro CLO 2021-2 DAC, Series '2X', Class 'C', Floating Rate, Callable	8.51%
Barings Euro CLO 2021-3 DAC, Series '3X', Class 'C', Floating Rate, Callable	5.12%
CVC Cordatus Loan Fund XXXII DAC, Series '32X', Class 'A', Floating Rate, Callable	14.06%
Northwoods Capital 23 Euro DAC, Series '23A', Class 'C', Floating Rate, Callable	2.13%
Sound Point Euro CLO XI Funding DAC, Series '11X', Class 'A', Floating Rate, Callable	12.17%
Voya Euro CLO I DAC, Series '1X', Class 'A1R', Floating Rate, Callable	12.79%
Voya Euro CLO I DAC, Series '1X', Class 'A2R', Floating Rate, Callable	5.12%
<b>Cash and Equivalents</b>	
Net Cash and Other Assets	5.89%
<b>Foreign Currency Hedges</b>	
Foreign Currency Forward Contracts	1.33%
<b>Total</b>	<b>100.00%</b>

### Portfolio Allocation (as at December 31, 2025)

Portfolio by Category	Percentage of Net Asset Value, CAD\$
CLOs	92.78%
Cash and Equivalents	5.89%
Foreign Currency Hedges	1.33%
<b>Total</b>	<b>100.00%</b>

The summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund. Updates are available quarterly by visiting our website at [www.cortoncapital.ca](http://www.cortoncapital.ca).

### **Other Material Information**

There is no other material information in the period.