

Corton Enhanced Income Fund

December 31, 2024

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**

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 from inception of the Fund on September 17, 2024 to December 31, 2024; however, economic and market conditions created heightened risks and volatility, particularly relating to political and economic events, inflationary pressures and credit market dynamics, which are discussed further in the Portfolio Manager Commentary below. Management will continue to actively monitor market conditions and adjust portfolio positioning as determined necessary with the aim of mitigating these risks. The risks of investing in the Fund remain as discussed in the Fund's prospectus. Prospective investors should read the Fund's most recent prospectus and consider the description of risks contained therein.

## **Results of Operations**

Since the Fund began trading on September 18, 2024, no performance data can be shown. The Fund's initial trade was allocated amongst AAA and A-rated CLOs once sufficient capital was raised to meet minimum trading thresholds in the secondary market. As further capital flowed-in, additional CLO issues were added to the portfolio. The Fund's net assets grew to \$23,208,977 as at December 31, 2024.

## **Portfolio Manager Commentary**

Since the Fund began trading on September 18, 2024, there have been a number of economic and political events that the Manager has responded to, specifically, (a) the return of President Trump with his nationalist agenda; (b), the continued battle by central banks against inflation, and (c) various OECD<sup>1</sup> governments struggling to avoid a recession. Periodically, markets reacted strongly to labour market data that deviated from consensus; CPI<sup>2</sup> numbers deviating from forecasts; or corporate earnings missing analysts' expectations.

In response to the heightened market uncertainty and volatility, management was able to opportunistically pick-up defensive short-dated A-rated CLOs in small sizes when they became

---

<sup>1</sup> Organization for Economic Co-operation and Development

<sup>2</sup> Consumer Price Index

available during the last quarter of 2024. These defensive positions are expected to help dampen price and spread volatility in the portfolio.

The Fund's investment strategies allow it to allocate up to 40% to AA and/or A-rated CLOs and the Manager has preferred A-rated over AA-rated to pick-up additional yield over the AAA's. The A-rated CLOs were also shorter dated and were out of their reinvestment period, which minimizes their mark-to-market risk due to potential spread volatility.

Despite bouts of volatility, European CLO markets fared well overall ending the year with EUR 186 billion of CLO primary issuance in 2024. Net issuance was lower due to low loan growth, high prepayments and amortizations of older vehicles/deal calls as loan prices and NAVs stayed elevated throughout 2024. This led to tightening in spreads throughout the year, driven primarily by mezzanine tranches (AA, A, BBB and BB-rated).

AAA CLOs had a decent year, with secondary spreads (for already issued CLOs) tightening ~50bps year over year to the low 100bps or even under 100bps for shorter weighted average life bonds. AAA CLO spreads above Euro swap rates in the primary CLO issuance market held in the 130-150 bps range for most of the year. During the same time period, Single A-rated CLO tranches moved from trading at around 210 bps above Euro swap rates to less than 200 bps as risk assets continued to rally.

Although CLO AAA spreads over benchmark Euro swap rates narrowed during the latter part of 2024, it is not clear what will happen in 2025 as the markets are struggling with the uncertainty with the new government in US and its significant shift in policies; however, the Manager will closely monitor these developments and adjust the Fund's investment strategies as necessary to mitigate risks and capitalize on opportunities. The Manager expects the European CLO market to continue to see more growth with new CLO managers joining the issuance market and launching their CLO platform.

## **Recent Developments**

There were no changes to the investment objectives or the strategies of the Fund, or the management and governing structure during the review period.

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.

## **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 from inception of the Fund on September 17, 2024 to December 31, 2024 of \$ 78,414. 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, at its sole discretion, elected to waive or absorb \$67,960 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. Management fees are discussed below.

### **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, 2024, officers and directors owned \$10,000 net assets of the Fund.

### **IRC Review of Related Party Transactions**

As required by National Instrument 81-107- Independent Review Committee for Investment Funds (“NI 81-107”), the Manager has established the IRC to review all conflict of interest matters identified and referred to the IRC by the Manager and to give its approval or recommendation, depending on the nature of the conflict of interest matter. Additional information about the IRC is available in the prospectus and in the IRC Report to Securityholders. The Fund’s Independent Review Committee (IRC) has reviewed all related party transactions involving the Manager.

The Manager confirms that, during the most recently completed financial year, no conflicts of interest arose where the Manager acted without a positive recommendation from the Independent Review Committee (IRC).

Furthermore, the Manager affirms that all conditions imposed by the IRC in its recommendations or approvals were met in full and on time, with no instances of non-compliance.

## 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 partial year starting from the Fund's inception date on September 17, 2024 and ending December 31, 2024<sup>3</sup>.

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

	<b>2024</b> <sup>(4)</sup>
<b>Net Assets per Unit, beginning of period</b>	\$0
<b>Increase (decrease) from operations:</b>	
Total revenue	\$0.14
Realized gains (losses) for the period	\$0.00
Unrealized gains (losses) for the period	\$0.02
Total Expenses (excluding distributions)	(\$0.03)
<b>Total increase (decrease) from operations</b> <sup>(2)</sup>	\$0.13
<b>Distributions:</b>	
From net investment income (excluding dividends) <sup>(3)</sup>	\$0.07
From capital gains <sup>(5)</sup>	\$0.00
<b>Total annual distributions</b>	\$0.07
<b>Net Assets per Unit at December 31 of year shown</b>	\$10.00

(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

	<b>2024</b>
Total Net Asset Value (\$) <sup>(1)</sup>	\$23,208,977
Number of units outstanding <sup>(1)</sup>	2,320,000
Management Expense Ratio <sup>(2)</sup>	1.03%

<sup>3</sup> Classes, A, F and I of the Fund had no trading activity during the period.

Management expense ratio before waivers or absorptions <sup>(2)</sup>	2.69%
Trading expense ratio <sup>(3)</sup>	0.00%
Portfolio turnover ratio <sup>(4)</sup>	0.00%
Net Asset Value per unit	\$10.00
Closing market price <sup>(5)</sup>	\$25.23

- (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% 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 partial year ended December 31, 2024, the Fund incurred \$32,663 in management fees. Effective February 1, 2025, the management fee was reduced to 0.45%.

### **Past Performance**

This information is not available because the Fund has not yet completed one year of operations. The Fund was launched on September 17, 2024.

### **Year-by-Year Returns**

This information is not available because the Fund has not yet completed one year of operations.

### **Annual Compound Returns**

This information is not available because the Fund has not yet completed one year of operations.

## Summary of Investment Portfolio

### Top 25 Positions (as at December 31, 2024)

Security	Percentage of Net Asset Value, CAD\$
Barings Euro CLO 2019-2 DAC, Series '2X', Class 'CR', Floating Rate, Callable	9.51%
Adagio XII Eur Clo DAC, Series 'X', Class 'A', Floating Rate, Callable	9.16%
Sound Point Euro CLO XI Funding DAC, Series '11X', Class 'A', Floating Rate, Callable	9.15%
Voya Euro CLO I DAC, Series '1X', Class 'A1R', Floating Rate, Callable	9.00%
CVC Cordatus Loan Fund XXXII DAC, Series '32X', Class 'A', Floating Rate, Callable	8.99%
Adagio CLO VIII DAC, Series 'X', Class 'C', Floating Rate, Callable	8.98%
Arbour CLO V DAC, Series '5X', Class 'B2', Floating Rate, Callable	8.66%
St. Paul's Clo VII DAC, Series '7A', Class 'CRR', Floating Rate, Callable	7.36%
Trinitas Euro CLO VII DAC, Series '7X', Class 'A', Floating Rate, Callable	6.45%
Ares European CLO XX DAC, Series '20X', Class 'A', Floating Rate, Callable	6.42%
Barings Euro CLO 2021-2 DAC, Series '2X', Class 'C', Floating Rate, Callable	6.39%
Bain Capital Euro CLO 2019-1 DAC, Series '1X', Class 'C', Floating Rate, Callable	2.30%
Invesco Euro CLO IV DAC, Series '4X', Class 'C', Floating Rate, Callable	2.26%
Voya Euro CLO I DAC, Series '1X', Class 'A2R', Floating Rate, Callable	1.86%
Northwoods Capital 23 Euro DAC, Series '23A', Class 'C', Floating Rate, Callable	1.59%
HSBC Global Liquidity Funds PLC	0.47%
Forward Foreign Currency Contracts – CIBC World Markets – January 9, 2025	1.06%
Forward Foreign Currency Contracts – CIBC World Markets – February 28, 2025	0.00%
<b>Total</b>	<b>99.61%</b>

### Portfolio Allocation (as at December 31, 2024)

Portfolio by Category	Percentage of Net Asset Value, CAD\$
Short-Term Investments	
CLOs	98.08%
Cash and Cash Equivalents	0.47%
<b>Total</b>	<b>98.55%</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.