

# OCP CREDIT STRATEGY FUND

Monthly Update as at September 30, 2011



## Investment Rationale and Objectives

OCP Credit Strategy Fund provides Unitholders with exposure to the performance of an actively managed, diversified portfolio comprised primarily of senior debt obligations of non-investment grade North American issuers.

The Fund's objectives are: (i) to maximize total returns for Unitholders, on a tax-advantaged basis; (ii) to provide Unitholders with attractive, quarterly, tax-advantaged distributions, currently targeted to be \$0.70 per annum, representing an annual yield of 7% based on the original issue price of \$10.00 per Unit; and (iii) to preserve capital.

## Details

Date of Inception:	November 20, 2009
Issue Price:	\$10.00
Opening NAV (November 20, 2009):	\$9.44
Ticker Symbol:	OCS.UN (TSX)
Total Net Assets:	\$261,268,635*
NAV per Unit:	\$8.59*
Market Price:	\$8.65*
Latest Distribution: September 30, 2011	\$0.175
Distribution Frequency:	Quarterly
Cash Distributions Since Inception:	\$1.3036

\* As at September 30, 2011.

## Commentary

Net performance of OCP Credit Strategy Fund was (2.66%) and (3.90%) in September and year-to-date, respectively. Similar to August, lower rated loans and bonds significantly underperformed their broader indices. Lower-rated<sup>1</sup> loans and bonds returned (4.18%) and (7.23%), respectively compared to 0.25% and (2.81%) for their broader indices, respectively.

To help place the magnitude of the market movements in context, spreads on loans (722bps) and bonds (811bps) at the end of September were approximately 30%-40% wider than at the end of July<sup>2</sup>. The S&P500 lost (7.03%) and TSX lost (8.97%) in September, the largest monthly losses of the year for both indexes.

Investors continued to reduce risk across asset classes, including credit, over concerns that the lack of a comprehensive policy response in Europe to sovereign debt issues, the signs of slowing growth in China, and that the U.S. Fed's monetary policies (e.g. the 'Twist') may be ineffective in the long run to stimulate the economy, are increasing the prospects for a global recession.

Besides the general market sell-off, we believe a number of the Portfolio's holdings were particularly impacted by an increase in negative sentiment, versus any specific company news or negative event. These holdings included Tribune (secured loans), Hovnanian (senior note), Edison Mission (senior bonds), and Lightsquared (secured term loan). The senior bonds of independent power producer Edison Mission fell due to continued concerns over potential financing needs and required capital expenditures at several plants. Although the market has been aware of these issues for some time, they have become more of a concern in the current risk-averse environment. We believe Edison is well managed and has a number of financial and strategic options to enhance value.

Gains in several of the Portfolio's long positions and short positions, including shorts on specific credits, partially offset losses. In the first half of the month, we added a short position on an additional European government bond to hedge potential weakness in Euro-zone markets. One positive performer was a long position in the senior bonds of Woodside/PH Holding. Woodside, a home builder in the West and Southwest, emerged from bankruptcy in late 2009. We purchased the notes of this smaller, less followed credit in May as our analysis concluded these secured notes were well covered and the market underestimated the value of potential incremental distributions holders of the secured notes could be entitled to receive. In August, the bankruptcy court resolved the issue of disputed claims. By disallowing most claims, secured noteholders' received all unallocated amounts withheld for disputed claims. This amounted to an additional 22% distribution in a combination of cash and additional secured notes.

At the end of September, the Fund remained defensively positioned. The recent market dislocation has created a much larger and more interesting opportunity set versus just a few months ago and with a cash balance of approximately 30%, the Fund is well positioned to take advantage of these opportunities. As we did in 2008-2009, our objective will be to deploy investors' cash prudently in selective positions that we believe are fundamentally undervalued, and/or may experience a corporate event, that can generate attractive risk adjusted returns.

1) includes CCC/Split CCC, and Defaulted loans and bonds  
2) Spreads reflect yields above a reference interest rate that is specific to each asset class

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# ONEX

CREDIT PARTNERS

## Five Strongest and Weakest Performers

### Strongest

Fed Mogul Secured Term Loan
Level 3 Secured Term Loan
Harbinger Secured Note
Woodside/PH Holding Secured Note
South Edge Secured Term Loan

### Weakest

Tribune Secured Credit Facility
US Treasury Bond (short)
Hovnanian Senior Note
Edison Mission Senior Note
Lightsquared Secured Term Loan

The chart shows the top five strongest and weakest holdings contributing to the Fund's performance for the month. These holdings do not represent all of the assets held, purchased or sold during the month.

## Industry Exposure

	Long	Short	Net
Finance	12.40%	0.00%	12.40%
Gaming/Leisure	11.15%	-0.83%	10.32%
Independent Power Producers	8.43%	0.00%	8.43%
Other	5.60%	-11.12%	-5.52%
Transportation	5.48%	0.00%	5.48%
Housing/Building Producers	5.15%	-0.71%	4.44%
Telecom	3.90%	-0.53%	3.36%
Aerospace	3.36%	0.00%	3.36%
Media	3.07%	0.00%	3.07%
Chemicals	2.69%	0.00%	2.69%
Energy Service	2.02%	0.00%	2.02%
Business Services	1.14%	-0.79%	0.35%
Healthcare	1.09%	0.00%	1.09%
Energy	1.03%	-0.36%	0.67%
Cable/Wireless Video	0.52%	0.00%	0.52%
Forest Prod/Containers	0.50%	0.00%	0.50%
Real Estate	0.13%	-0.95%	-0.83%
Food	0.00%	0.00%	0.00%
Retail	0.00%	-0.55%	-0.55%
Index	0.00%	-5.40%	-5.40%
Adjusted Exposure**	67.67%	-21.24%	46.43%

## Portfolio Composition\*\*\*

	Long	Short	Net
Bank Debt	41.17%	0.00%	41.17%
Corporate Bonds	21.45%	-4.72%	16.73%
Government Bonds	0.00%	-11.12%	-11.12%
Equity	2.08%	-0.47%	1.61%
Other	2.48%	0.00%	2.48%
Call Options	0.00%	0.00%	0.00%
Warrants	0.50%	0.00%	0.50%
Notional value of CDS	0.00%	-4.94%	-4.94%
Notional value of Puts	0.00%	0.00%	0.00%
Adjusted Exposure**	67.67%	-21.24%	46.43%
Cash	32.33%	0.00%	32.33%
Total Exposure	100.00%	-21.24%	78.76%

\*\*\* The Portfolio refers to the positions held by the underlying fund, OCP Investment Trust.

\*\* Shorts include the notional value of the credit default swaps, if any.

All amounts in Canadian dollars unless otherwise stated. Certain statements constitute forward-looking statements, including, but not limited to, those identified by the expressions "expect", "intend", "will" and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts but reflect Onex Credit Partners, LLC's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Although Onex Credit Partners, LLC believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, readers are cautioned not to place undue reliance on such statements due to the inherent uncertainty therein. Onex Credit Partners, LLC undertakes no obligation to update publicly or otherwise revise any forward-looking statement or information whether as a result of new information, future events or other such factors which affect this information, except as required by law. Commissions, trailing commissions, management fees and expenses all may be associated with an investment in the Fund. Please read the Fund's continuous disclosure documents (found on SEDAR) before investing. The Fund is not guaranteed, its value changes frequently and past performance may not be repeated.

The Portfolio refers to the positions held by the underlying fund, OCP Investment Trust. Through a forward agreement, the return of the Fund is dependent on the return of the Portfolio. Performance figures for the Fund are based on Canadian generally accepted accounting principles and were based on audited financial statements through June 30, 2011 and unaudited monthly estimates thereafter. Performance figures for the Fund include distributions paid during the relevant period and are calculated net of expenses and fees. Returns for the Fund may diverge from the returns for the Portfolio for several reasons including the incurrence of expenses and payment of distributions by the Fund.