

# OCP CREDIT STRATEGY FUND

Monthly Update as at September 30, 2013



## 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:                       | \$252,905,398*    |
| NAV per Unit:                           | \$8.94*           |
| Market Price:                           | \$8.74*           |
| Latest Distribution: September 30, 2013 | \$0.1750          |
| Distribution Frequency:                 | Quarterly         |
| Cash Distributions Since Inception:     | \$2.7036          |

\*As at September 30, 2013

## Commentary

Net performance of OCP Credit Strategy Fund was 0.32% and 7.05% in September and year-to-date, respectively. Markets rebounded from August weakness on positive economic news and the Federal Reserve's unexpected decision to continue its bond purchase program unchanged. However, markets gave back a portion of the month's gains after investor attention turned to the increasing probability of a U.S. government shutdown and impending deadline to raise the U.S. debt ceiling. It appears that political risks could replace economic and market risks as sources of volatility in the near and medium terms. The CS Leveraged Loan Index, CS High Yield Bond Index, and S&P500 returned 0.29%, 0.98%, and 3.14% in the month, respectively.

The Portfolio's top five performers, including senior bonds of power producer Edison Mission, generated a significant portion of gross performance in September. Edison Mission, which filed for bankruptcy in December 2012, gained on incrementally positive news including the completion of a transaction by another company that supports the value of Edison Mission's wind assets, the favorable outcome of litigation, and better than expected operating results. As mentioned in July, Edison Mission is exploring the sale of all or a portion of its assets. Similar to the positive impact that the successful IPO of NRG's renewable energy portfolio had on Edison Mission in July, the successful IPO of Pattern Energy Group, a company with significant wind generation assets, in September further reinforced the valuation of Edison Mission's wind portfolio. Like Edison Mission, these companies have renewable energy assets with primarily long term contracts. In addition, during the month Edison Mission received a favorable ruling on litigation with Chevron related to gas assets in California; this ruling should clear the way for an easier sale process for these assets. Finally, a warmer than expected month also helped Edison Mission report better than expected operating results for August.

Ambac was the largest detractor from performance in the month. Like many other large monoline insurers, Ambac had provided financial guarantees to municipal bond issuers, including Puerto Rico, prior to the 2008 financial crisis. As prices in the broader municipal bond market declined (and yields rose) in sympathy with the summer sell-off in U.S. Treasuries, bonds issued by Puerto Rico fell even further. While Puerto Rico's new Governor has taken several positive actions to decrease the island's deficit, investors have grown concerned over the island's ability to refinance its debt maturities given a continued weak economy. Although we had taken some profits in Ambac's surplus notes earlier in the quarter, the Portfolio fully exited its position in the equity and the surplus notes during the month. We believed that the Portfolio's equity position would be vulnerable to losses from a potential Puerto Rico default and that the surplus notes would trade down in sympathy. We continue to monitor Ambac and the evolving situation in Puerto Rico for future investment opportunities.

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## Five Strongest and Weakest Performers

### Strongest

|                                       |
|---------------------------------------|
| Lehman Brothers Senior Notes, Claims  |
| Edison Mission Senior Bonds           |
| General Motors Warrants               |
| Delphi Automotive Restructured Equity |
| Air Canada Equity                     |

### Weakest

|                                   |
|-----------------------------------|
| Ambac Note                        |
| US Power Restructured Equity      |
| OSX Secured Bond                  |
| High Yield Bond Index Short (CDX) |
| TXU Senior Secured 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           |
|----------------------------|---------------|----------------|---------------|
| Automobiles                | 11.88%        | -2.35%         | 9.53%         |
| Independent Power Products | 9.42%         | 0.00%          | 9.42%         |
| Shipping                   | 6.92%         | 0.00%          | 6.92%         |
| Aerospace                  | 6.39%         | 0.00%          | 6.39%         |
| Gaming/Leisure             | 5.07%         | 0.00%          | 5.07%         |
| Finance                    | 4.61%         | 0.00%          | 4.61%         |
| Housing/Building Producers | 5.06%         | -1.04%         | 4.02%         |
| Trucking                   | 3.63%         | 0.00%          | 3.63%         |
| Business Services          | 3.51%         | -0.56%         | 2.95%         |
| Forest Prod/Containers     | 3.34%         | -0.68%         | 2.66%         |
| Energy                     | 3.98%         | -2.28%         | 1.70%         |
| Transportation             | 0.40%         | 0.00%          | 0.40%         |
| Media                      | 0.27%         | -0.55%         | -0.28%        |
| Retail                     | 0.00%         | -0.36%         | -0.36%        |
| Packaging                  | 0.00%         | -0.52%         | -0.52%        |
| Telecom                    | 0.00%         | -0.54%         | -0.54%        |
| Technology                 | 1.93%         | -2.70%         | -0.77%        |
| Food                       | 0.55%         | -1.80%         | -1.25%        |
| Metals/Minerals            | 0.00%         | -1.32%         | -1.32%        |
| Chemicals                  | 0.93%         | -2.86%         | -1.93%        |
| Index                      | 0.00%         | -1.38%         | -1.38%        |
| Other                      | 13.54%        | 0.00%          | 13.54%        |
| <b>Adjusted Exposure**</b> | <b>81.44%</b> | <b>-18.94%</b> | <b>62.50%</b> |

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

## Portfolio Composition\*\*\*

|                            | Long           | Short          | Net           |
|----------------------------|----------------|----------------|---------------|
| Bank Debt                  | 41.31%         | 0.00%          | 41.31%        |
| Corporate Bonds            | 29.87%         | -13.07%        | 16.80%        |
| Government Bonds           | 0.00%          | 0.00%          | 0.00%         |
| Equity                     | 4.25%          | -0.44%         | 3.81%         |
| Other                      | 4.81%          | 0.00%          | 4.81%         |
| Puts                       | 0.00%          | 0.00%          | 0.00%         |
| Call Options               | 0.00%          | 0.00%          | 0.00%         |
| Warrants                   | 1.21%          | 0.00%          | 1.21%         |
| Notional value of CDS      | 0.00%          | -5.43%         | -5.43%        |
| Notional value of Puts     | 0.00%          | 0.00%          | 0.00%         |
| <b>Adjusted Exposure**</b> | <b>81.44%</b>  | <b>-18.94%</b> | <b>62.50%</b> |
| Cash****                   | 18.56%         | 0.00%          | 18.56%        |
| <b>Total Exposure</b>      | <b>100.00%</b> | <b>-18.94%</b> | <b>81.06%</b> |

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

\*\*\*\* Cash is adjusted to reflect payment or receipt of proceeds from any unsettled trades and to exclude the proceeds of any short sales.

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 December 31, 2012 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.