

# OCP INVESTMENT TRUST

Annual Management Report of Fund Performance for the year ended  
**December 31, 2013**

**Fund:**

OCP Investment Trust

**Securities:**

Trust Units

**Period:**

January 1, 2013 to December 31, 2013

**Manager:**

Onex Credit Partners, LLC

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**Notes:**

1. This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete Annual Financial Statements of the Fund. You can get a copy of the Annual Financial Statements at your request, and at no cost, by contacting us (contact information above) or on SEDAR at [www.sedar.com](http://www.sedar.com). Holders may also contact us to request a free copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.
2. This report may contain forward looking statements. Forward looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward looking statements.
3. Unless otherwise indicated all information is as at December 31, 2013.
4. None of the websites that are referred to in this Annual Management Report of Fund Performance, nor any of the information on any such websites, are incorporated by reference in this Annual Management Report of Fund Performance.

## Investment Objectives and Strategies

The Fund's investment objectives are to maximize total returns for securityholders while preserving capital. The Fund seeks to generate attractive risk adjusted returns through a long/short investment strategy focused on actively traded, event-driven, senior debt securities in the non-investment grade debt markets. In order to manage risk volatility, the strategy is based on a diversified portfolio, with limited exposure to equity investments and no financial leverage.

## Risks

There were no changes to the Fund over the period of this report that affected the overall level of risk associated with an investment in the Fund. Securityholders should refer to the Fund's annual information form ("AIF") for the year ended December 31, 2013 as it contains a detailed discussion of risk and other considerations relating to an investment in the Fund. The AIF is available free of charge from us (contact information above), on our website [www.ocpcreditstrategy.com](http://www.ocpcreditstrategy.com) and on SEDAR [www.sedar.com](http://www.sedar.com). Readers are also directed to Note 7 of the Fund's 2013 Annual Financial Statements which discusses management of financial risks.

## Results of Operations

The Fund's net assets were \$252.6 million as at December 31, 2013, a decrease from \$262.1 million as at December 31, 2012. The largest factors contributing to this decrease were (i) redemptions of \$37.8 million; (ii) realized foreign exchange loss of \$6.6 million; (iii) net investment loss of \$1.6 million; and (iv) net realized losses on derivatives of \$3.4 million. This was partially offset by net realized gains on sale of investments of \$23.6 million and an increase in the unrealized value of portfolio investments of \$16.3 million.

For the fiscal year ended December 31, 2013, net assets per unit of the Fund was \$12.79 compared to \$11.47 on December 31, 2012. Total return for the Fund was 11.5% over the year.

Net investment (loss) income was lower as compared to the prior year primarily due to an increase in performance fees and a reduction in net interest income. In addition, the net gain on investments for the current year was higher as compared to the prior year, mainly driven by higher realized gains on investments.

Gains in the year were concentrated in the Fund's five best performing positions including Lehman Brothers, Eastman Kodak, Edison Mission, General Motors, and Ambac Financial. The Fund's holdings in these companies benefitted from corporate events the majority of which we have discussed in our monthly updates. The portfolio's shorts, both hedges and investments, detracted from performance in the period. The high yield index hedge (high yield CDX), which the Manager believes to be prudent given the macro risk overhangs, accounted for a significant portion of this drag, as did a CDS position on a specific credit. The Manager believes that the focus on security selection helps to satisfy the Fund's objective of providing investors attractive risk-adjusted and absolute returns, while preserving capital.

The Fund's long exposure increased from 84.91% at December 31, 2012 to 93.44% at December 31, 2013 while its short exposure declined from 21.75% to 15.07%. Long exposure grew as the Manager initiated new event driven positions in the year as prior positions were repaid or were exited. Short exposure fell by nearly a third as we reduced credit default swaps (CDS) on certain credits and credit index swaps (high yield CDX) positions and eliminated the Spanish Government Bond short in light of the improving domestic and Euro zone markets.

The change in the composition of the Portfolio during the year was consistent with the Fund's investment objective. This has resulted in a portfolio of event-driven investments that the Manager believes will benefit from the specific corporate events, such as restructurings, refinancings, and bankruptcies, that we identified in our investment rationales. The Portfolio's assets can also generate interest income and may benefit from price appreciation.

## Recent Developments

Events occur in all economic and market environments and also occur outside the non-investment grade market, e.g., investment grade and municipal bond markets, which increase the Fund's opportunity set. The Manager is also evaluating specific opportunities in Europe. The underpinnings of the senior secured loan and high yield bond markets remain strong and include modest U.S. economic growth, low interest rates, and below average default rates. The default rate may spike in 2014 following the default that is widely expected to occur in the large debt structure of a power producer. The increase in the default rates would be driven by company specific issues, not broad issues in the economy. In addition, the recent record issuance of high yield bonds and senior loans, the possible erosion of underwriting standards, and the return of riskier deal types may become additional sources of opportunity. And, given the combined \$2.8 trillion market value of these markets, even a small pick-up in the default rate will create event driven opportunities for the Fund.

Markets delivered another year of solid gains in 2013 as global risks moderated and global economies grew. Notwithstanding the announcement in December by the U.S. Federal Reserve of its intention to reduce bond purchases (i.e., tapering) in January, markets continued to ascend as investors gained confidence in the Federal Reserve's intent to keep short term rates near zero. Based on the broad range of companies that the Manager follows and invests in, their outlook is for the U.S. economy to deliver modest but stable growth that is sufficient to keep senior loan and high yield bond default rates below their historical averages. Default rates may increase in 2014 if, as expected, a few very large credits in the market embark upon restructurings that result in defaults. Because these defaults are widely anticipated and the companies would default for their own specific issues and not economy wide ones, these defaults would not impact the overall market outlook. In addition, the Manager believes investors will continue to seek income producing investments and this demand will also benefit senior loans and high yield bonds.

The macro-environment has stabilized, although resurgence in real or perceived systemic risks could materially impact the outlook.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Investment companies that are publicly accountable enterprises or investment funds to which National Instrument 81-106 *Investment Fund Continuous Disclosure* is applicable, are required to adopt International Financial Reporting Standards (IFRS) for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and publish its first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening Statement of Financial Position as at January 1, 2013, also prepared in accordance with IFRS.

The Fund continues to execute its transition plan to complete the changeover to IFRS in 2014 and comply with the required timetable for continuous disclosure. As at December 31, 2013, the impact to the financial statements based on the Fund's assessment of the differences between current Canadian Generally accepted accounting principles ("GAAP") and IFRS are as follows:

- IFRS 13 *Fair Value Measurement* permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. The Fund will adopt accounting policies for the valuation of investments to utilize mid-market prices that align more closely with the calculation of net asset value (NAV) used to price unitholder transactions (Transaction NAV). As a result, net assets for current financial reporting purposes (GAAP NAV) will be impacted and is expected to align with Transaction NAV, eliminating the need for a NAV per unit reconciliation. The impact to the Statements of Financial Position as at January 1, 2013 (see December 31, 2012) and December 31, 2013 is disclosed in note 2 of the Fund's annual financial statements. The net change in these reconciliation adjustments will have a corresponding impact to income in the Statements of Comprehensive Income.

- IFRS 10 *Consolidated Financial Statements* provides an exception to the consolidation requirements and requires an investment entity to account for its subsidiaries at fair value through profit or loss. The Fund has concluded that it meets the definition of an investment entity as at January 1, 2013 and throughout the year ended December 31, 2013.
- Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. In circumstances where the conditions are met to reflect securityholder's equity as equity, the Fund will also be required to separately disclose retained earnings, other reserves and securityholders' paid up capital. The fund has assessed the unitholder's structure and has determined the equity treatment is the most appropriate classification. The amount of share capital and retained earnings as of December 31, 2013 were \$193,948,187 and \$58,630,066 (2012 – \$224,421,583 and \$37,696,620), respectively.
- IFRS requires the presentation of a Statement of Cash Flows, including comparatives for 2013. The Fund has not previously presented this statement as permitted by current Canadian GAAP. In addition, other statements presented will be renamed as follow:
 

<u>Canadian GAAP</u>	<u>IFRS</u>
Statements of Net Assets	Statements of Financial Position
Statements of Operations	Statements of Comprehensive Income
Statements of Changes in Net Assets	Statements of Changes in Financial Position
Statement of Investment Portfolio	Schedule of Investment Portfolio
- Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

## Related Party Transactions

The Manager and the Fund are deemed to be related parties. Please refer to the section titled "Management Fees," which outlines the fees paid to the Manager. The Fund paid \$1,403,049 in performance fees to the Manager during the year (\$1,335,510 relating to fiscal 2012 and \$67,539 relating to 2013). In addition, as at December 31, 2013, the Fund accrued \$4,705,186 in performance fees payable to the Manager, which was paid in the first quarter of 2014. The Manager and the Fund were not party to any other related party transactions during the year ended December 31, 2013.

# 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 since inception.

## THE FUND'S NET ASSETS PER UNIT <sup>(1)</sup>

	2013	2012	2011	2010	2009 <sup>(2)</sup>
<b>Net Assets, beginning of period</b>	<b>\$11.47</b>	\$10.20	\$10.33	\$9.42	\$9.34
<b>Increase (decrease) from operations:</b>					
Total revenue	<b>0.49</b>	0.49	0.40	0.40	0.00
Total expenses	<b>(0.56)</b>	(0.31)	(0.25)	(0.24)	(0.01)
Realized gains (losses) for the period	<b>0.63</b>	0.03	0.40	0.37	0.04
Unrealized gains (losses) for the period	<b>0.77</b>	1.07	(0.84)	0.37	0.05
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>1.33</b>	1.28	(0.29)	0.90	0.08
<b>Distributions:</b>					
From income (excluding dividends)	<b>0.00</b>	0.00	0.00	0.00	0.00
From dividends	<b>0.00</b>	0.00	0.00	0.00	0.00
From capital gains	<b>(1.43)</b>	(1.08)	0.00	(0.95)	(0.08)
Return of capital	<b>0.00</b>	0.00	0.00	0.00	0.00
<b>Total Distributions <sup>(4)</sup></b>	<b>(1.43)</b>	(1.08)	0.00	(0.95)	(0.08)
<b>Net Assets as at December 31 <sup>(5)</sup></b>	<b>\$12.79</b>	\$11.47	\$10.20	\$10.33	\$9.42

### Notes:

- <sup>(1)</sup> This information is derived from the Fund's audited annual financial statements.
- <sup>(2)</sup> Results for the period from November 20, 2009 (inception date) to December 31, 2009.
- <sup>(3)</sup> 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.
- <sup>(4)</sup> Distributions were reinvested in additional units of the Fund.
- <sup>(5)</sup> This is not a reconciliation of the beginning and ending net assets per unit.

## RATIOS AND SUPPLEMENTAL DATA

	2013	2012	2011	2010	2009
Total Net Asset Value (000s) <sup>(1)</sup>	<b>\$252,607</b>	\$262,153	\$260,140	\$197,210	\$195,830
Number of units outstanding <sup>(1)</sup>	<b>19,748,611</b>	22,851,539	25,511,799	19,094,689	20,791,733
Management expense ratio <sup>(2)</sup>	<b>4.64%</b>	2.88%	2.35%	2.47%	1.19%
Management expense ratio before waivers or absorptions	<b>4.64%</b>	2.88%	2.35%	2.47%	1.19%
Trading expense ratio <sup>(3)</sup>	<b>0.01%</b>	0.02%	0.01%	0.01%	0.01%
Portfolio turnover rate <sup>(4)</sup>	<b>72.44%</b>	79.55%	102.84%	132.47%	26.22%
Net Asset Value per unit	<b>\$12.79</b>	\$11.47	\$10.20	\$10.33	\$9.42

### Notes:

- <sup>(1)</sup> This information is provided as at December 31 of the year shown.
- <sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Total expenses also include interest expense on short positions held in the Fund. The MER for the periods ended December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012 and December 31, 2013 excluding interest expense are 1.19%, 1.79%, 1.19%, 1.74% and 3.22% respectively.
- <sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- <sup>(4)</sup> 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.

## Management Fees

The Manager is responsible for providing or arranging for all investment advisory and portfolio management services required by the Fund including, without limitation, managing the portfolio in a manner consistent with the investment objectives, guidelines and restrictions of the Fund and for arranging for the execution of all portfolio transactions. The Manager is also responsible for the operational and administrative functions of the Fund. As compensation for the management services rendered to the Fund, the Manager is entitled to receive an annual management fee from the Fund in an amount equal to 0.9375% of the net asset value of the Fund, which is calculated daily and paid monthly in arrears.

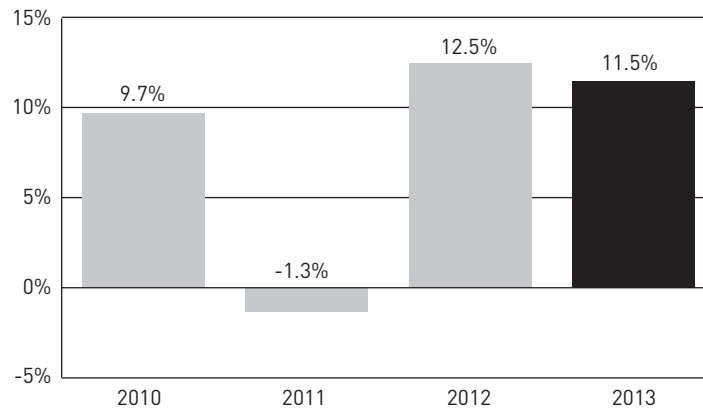
The Manager has retained FA Administration Services Inc. to provide certain administrative services to the Fund. The Manager pays FA Administration Services Inc. out of its management fee.

## Past Performance

Please note that the performance information shown in this section assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Also note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

### YEAR-BY-YEAR RETURNS <sup>(1)</sup>

The following bar chart shows the Fund's annual performance for the periods shown and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period.



<sup>(1)</sup> Returns are based on Net Asset Value per unit.

### ANNUAL COMPOUND RETURNS

The table below summarizes the Fund's annual compound total returns for the periods ended December 31 as indicated. As a basis for comparison, we have provided the performance of the Credit Suisse High Yield Index ("Index A") which is designed to mirror the investable universe of the \$US-denominated high yield debt market and the Credit Suisse Leveraged Loan Index ("Index B") which is designed to mirror the investable universe of the \$US-denominated leveraged loan market. As the criteria for determining the constituents of the Portfolio and the indexes differ, it is not expected that the Fund's performance will mirror that of the indexes. Further, the return of the indexes is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses.

Period	Fund	Index A	Index B
1 Year	11.5%	7.4%	6.2%
3 Year	7.4%	9.1%	5.8%
Since Inception	7.9%	11.0%	7.3%



## Summary of Investment Portfolio

The following is a summary of the Fund's investment portfolio as at December 31, 2013. This is a summary only and will change due to ongoing portfolio transactions of the Fund. A quarterly update is available on [www.ocpcreditstrategy.com](http://www.ocpcreditstrategy.com).

The percentages set forth in this summary may vary from the percentages set forth in the monthly updates prepared by the Fund. Chief among the reasons for the variance is that in the monthly updates cash is adjusted to reflect payment or receipt of proceeds from any unsettled trades and to exclude the proceeds of any short sales, and that the calculations use the notional amount of each credit default swap rather than its marked to market position.

### TOP 25 HOLDINGS AS AT DECEMBER 31, 2013

Description	% of Net Asset Value
<b>Long Positions</b>	
Cash <sup>(1)</sup>	30.97
Lehman Brothers Holdings	7.16
Overseas Shipholding Group, Inc.	5.65
Texas Competitive Electric Holdings Company	5.50
Caesars Entertainment Operating Co. Inc.	5.15
Federal Mogul Corporation	4.75
Eagle Bulk Shipping Inc.	4.24
Edison Mission Energy	3.95
Navistar Inc.	3.76
ACST Pass Through Trust Floating Rate	3.40
CMA CGM Container	3.38
K Hovnanian Enterprises	3.30
Glitnir Bank	2.81
Genco Shipping & Trading Ltd.	2.77
Alon USA Energy, Inc.	2.51
International Automotive Components Group	2.49
Travelport Inc.	2.37
Altegrity, Inc.	2.25
Avaya Inc.	2.12
Meritor, Inc.	1.93
Momentive Performance Materials Inc.	1.90
General Motors Company	1.89
OSX Leasing BV	1.83
Co-Operative Bank PLC	1.82
Eitzen Chemical (Singapore) Pte Ltd.	1.78

Description	% of Net Asset Value
<b>Short Positions</b>	
Arch Coal Inc.	(1.50)
Styrolution Group GMBH	(1.15)
USG Corporation	(1.08)
Trinseo Materials Operating S.C.A.	(1.02)
US Treasury	(0.86)
Tronox Finance LLC	(0.80)
Sealed Air Corporation	(0.70)
FMG Resources	(0.64)
Avis Budget Car Rental LLC	(0.63)
Goodyear Tire & Rubber Company	(0.62)
Jaguar Land Rover Automotive PLC	(0.59)
CenturyLink Inc.	(0.58)
Cenveo Corporation	(0.57)
Accuride Corp.	(0.57)
AMC Networks Inc.	(0.57)
Ball Corporation	(0.53)
Cliffs Natural Resources Inc.	(0.38)
J Crew Group	(0.37)
Alpha Natural Resources	(0.33)
YRC Worldwide, Inc.	(0.08)
CDX HY 21, 5.00%	(0.08)
Eagle Bulk Shipping Inc.	(0.01)
<b>Total Net Asset Value</b>	<b>\$252,606,819</b>

## SECTOR ALLOCATION AS AT DECEMBER 31, 2013

Industry	% of Net Asset Value
<b>Long Positions</b>	
Cash <sup>(1)</sup>	30.97
Automobiles	12.35
Independent Power Producers	11.06
Other	9.99
Gaming/Leisure	7.52
Shipping – Dry Bulk	7.04
Shipping – Tankers	5.65
Housing/Building Products	5.33
Trucking	5.11
Finance	5.04
Aerospace	3.93
Chemicals	3.54
Transportation/Logistics	3.38
Business Services	2.94
Energy	2.51
Technology	2.23
Energy Services	1.83
Shipping – Chemical Tankers	1.78
Food	0.59
Index	0.43
Media	0.42
Transportation	0.11

Industry	% of Net Asset Value
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**Short Positions**

Chemicals	(2.97)
Automobile	(2.41)
Energy	(1.83)
Housing/Building Products	(1.08)
Metals/Minerals	(1.02)
Other	(0.86)
Forest Products/Containers	(0.70)
Telecom	(0.58)
Business Services	(0.57)
Media	(0.57)
Packaging	(0.53)
Retail	(0.37)
Index	(0.08)
Trucking	(0.08)
Shipping – Dry Bulk	(0.01)

Portfolio composition	% of Net Asset Value
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**Long Positions**

Bank Debt	56.13
Cash <sup>(1)</sup>	30.97
Bonds	27.39
Equities	7.67
Warrants	1.58

Portfolio composition	% of Net Asset Value
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**Short Positions**

Bonds	(13.49)
Unfunded Bank Debt Commitments	(0.09)
Credit Index Swap	(0.08)

<sup>(1)</sup> Cash, net of amounts receivable for investments sold and payable for investments purchased, short proceeds received and other miscellaneous items is 6.56%.

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