

# OCP CREDIT STRATEGY FUND

Monthly Update as at November 30, 2012



## 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:                       | \$ 267,375,453 *  |
| NAV per Unit:                           | \$8.93 *          |
| Market Price:                           | \$8.63 *          |
| Latest Distribution: September 28, 2012 | \$0.1750          |
| Distribution Frequency:                 | Quarterly         |
| Cash Distributions Since Inception:     | \$2.0036          |

\*As at November 29, 2012

## Commentary

Net performance of OCP Credit Strategy Fund was 0.57% and 9.92% in November and year-to-date, respectively. Markets weakened in the first half of the month on concerns regarding the outcome of the U.S. presidential election followed by the lack of an imminent resolution of the U.S. 'fiscal cliff', but recovered on optimism of progress towards a fiscal compromise. The CS Leveraged Loan Index, CS High Yield Bond Index, and S&P500 returned 0.40%, 0.76%, and 0.58% in the month, respectively.

The Portfolio's November performance was essentially flat as modest gains from certain positive corporate events in the debt of Alon USA and Meritor were largely offset by small losses. In late 2011, we began purchasing the senior secured loan of oil refiner Alon USA at a discount to par. Based on our analysis, we concluded that given the value of its refineries and improving operations, Alon would refinance this debt prior to its stated August 2013 maturity. One alternative for Alon would be to IPO its key refinery into a Master Limited Partnership at an attractive valuation to reduce its debt. Alon decided to pursue this path but first needed to refinance the loan we held. In November, Alon issued a new five year senior secured loan which repaid our existing position at par. The Portfolio participated in the refinancing given the discount to par, attractive terms, and strong asset coverage. Later in the month, Alon successfully completed the IPO of its MLP and used the proceeds to repay at par approximately 40% of the new loan held by the Portfolio. Meritor is a leading supplier of truck parts. Over time, the Portfolio has invested in different Meritor debt issues. We first purchased the Company's bonds in late 2011 given our view that the bonds had traded down disproportionately to its peers following several quarters of lower than expected results. We sold those notes, realizing profits, once they tightened to levels consistent with Meritor's comps and swapped in to the Meritor convertible notes trading in the mid 80s. These convertible notes have a stated maturity of 2026 and are puttable at par in 2016 and we identified a near-term potential refinancing event. Meritor had amended the terms of its senior secured loan to extend the maturity from 2014 to 2017 and, in connection with the amendment, agreed to repay portions of its high yield bonds and convertible notes by 2015 to avoid acceleration of the maturity of the loan. We opted to buy the convertible notes rather than other instruments as our analysis showed it was more economically advantageous for the Company to address the convertible note first. As anticipated, Meritor did refinance the convertible notes in the near-term. In November, the Company issued \$250 million of a new convertible note and repaid the majority of holders of the existing convertible note at 95, causing the Portfolio's position to appreciate.

The Portfolio holds claims against Glitnir, an Icelandic bank that defaulted in October 2008 following collapse of the Icelandic banking system. Glitnir has been negotiating a reorganization with its creditors that requires Icelandic Central Bank approval. While Glitnir's asset recoveries have been in-line with our expectations, recent tensions among the Central Bank and Icelandic government, press, and political candidates ahead of 2013 national elections have slowed the approval process and placed pressure on Glitnir's claims. Although we reduced our position size slightly, we believe that the Icelandic government and Central Bank will ultimately reach a negotiated solution with Glitnir and its creditors in the second half of 2013 (versus the first half) that will unlock the assets' meaningful value.

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## Five Strongest and Weakest Performers

### Strongest

|                                    |
|------------------------------------|
| Lehman Brothers Senior Note, Claim |
| Alon Senior Secured Loan           |
| Meritor Convertible Bond           |
| GM Warrants                        |
| K. Hovnanian Senior Bond           |

### Weakest

|                               |
|-------------------------------|
| Glitnir Claim                 |
| TXU Senior Secured Loan       |
| Fed Mogul Senior Secured Loan |
| High Yield Bond CDX (short)   |
| Avaya 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           |
|-----------------------------|---------------|----------------|---------------|
| Transportation              | 13.74%        | -1.58%         | 12.17%        |
| Finance                     | 11.14%        | 0.00%          | 11.14%        |
| Independent Power Producers | 9.40%         | 0.00%          | 9.40%         |
| Housing/Building Products   | 8.05%         | -0.92%         | 7.13%         |
| Gaming/Leisure              | 4.97%         | 0.00%          | 4.97%         |
| Aerospace                   | 4.79%         | 0.00%          | 4.79%         |
| Energy Service              | 2.91%         | 0.00%          | 2.91%         |
| Energy                      | 4.40%         | -1.88%         | 2.53%         |
| Telecom                     | 2.41%         | 0.00%          | 2.41%         |
| Media                       | 1.94%         | 0.00%          | 1.94%         |
| Business Services           | 2.38%         | -0.47%         | 1.92%         |
| Technology                  | 3.59%         | -1.87%         | 1.72%         |
| Forest Prod/Containers      | 1.24%         | 0.00%          | 1.24%         |
| Chemicals                   | 0.66%         | 0.00%          | 0.66%         |
| Real Estate                 | 0.12%         | 0.00%          | 0.12%         |
| Healthcare                  | 0.00%         | 0.00%          | 0.00%         |
| Retail                      | 1.46%         | -2.03%         | -0.57%        |
| Manufacturing               | 0.00%         | -0.58%         | -0.58%        |
| Consumer Non-Durable        | 0.00%         | -1.67%         | -1.67%        |
| Food                        | 0.84%         | -3.35%         | -2.51%        |
| Index                       | 0.00%         | -3.85%         | -3.85%        |
| Other                       | 11.04%        | -2.91%         | 8.13%         |
| <b>Adjusted Exposure**</b>  | <b>85.08%</b> | <b>-21.10%</b> | <b>63.98%</b> |

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

## Portfolio Composition\*\*\*

|                            | Long           | Short          | Net           |
|----------------------------|----------------|----------------|---------------|
| Bank Debt                  | 45.65%         | 0.00%          | 45.65%        |
| Corporate Bonds            | 29.04%         | -7.61%         | 21.43%        |
| Government Bonds           | 0.00%          | -2.91%         | -2.91%        |
| Equity                     | 5.09%          | -0.44%         | 4.65%         |
| Other                      | 4.63%          | 0.00%          | 4.63%         |
| Puts                       | 0.00%          | 0.00%          | 0.00%         |
| Call Options               | 0.00%          | 0.00%          | 0.00%         |
| Warrants                   | 0.67%          | 0.00%          | 0.67%         |
| Notional value of CDS      | 0.00%          | -10.14%        | -10.14%       |
| Notional value of Puts     | 0.00%          | 0.00%          | 0.00%         |
| <b>Adjusted Exposure**</b> | <b>85.08%</b>  | <b>-21.10%</b> | <b>63.98%</b> |
| Cash****                   | 14.92%         | 0.00%          | 14.92%        |
| <b>Total Exposure</b>      | <b>100.00%</b> | <b>-21.10%</b> | <b>78.90%</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, 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.