



## OCP Senior Credit Fund – 2012 Update

### Introduction

The Senior Credit Strategy (the strategy employed by the OCP Senior Credit Fund) has a track record in excess of five years and OCP has confidence in its continued ability to meet the Fund's stated objectives. Investors who purchased the Fund at the initial offering of \$10 per Unit have received distributions totaling \$1.06 based on its historical and currently targeted distribution of 5% per annum. Because these distributions are treated as a return of capital due the Fund's tax structure, these investors' adjusted cost basis (ACB) is \$8.94. Additionally, the NAV has grown from an opening NAV of \$9.45 on November 19, 2010 to \$9.96 at January 30, 2013.

Last year, we predicted the loan market would perform well supported by improving market fundamentals. In 2012, the Fund's net return was 14.34%<sup>1</sup>, including an annual distribution of \$0.50 per unit. As discussed further below, we continue to see an attractive investment environment for the Fund's strategy.

### Fund Overview

Launched November 19, 2010, the OCP Senior Credit Fund continues to offer investors an excellent source of attractive, stable, tax-advantaged income and to be an effective complement to investment grade and high yield bond portfolios. The Fund can offer these features based on its exposure to a diversified portfolio of senior secured loans of primarily North American companies. The Fund benefits from the unique and defensive features generally associated with senior secured loans, including seniority in the capital structure, security of first lien priority on borrowers' assets, and floating rate interest payments (adjusted quarterly) that increase as interest rates rise.

The Fund focuses on larger, more actively traded senior secured loans and other senior debt obligations. Other key credit selection criteria generally include:

- Strong market positions, attractive and sustainable business models, and high quality management teams; and
- Significant levels of asset and/or cash flow coverage resulting in principal protection.

While over the long term, interest income should be the primary source of returns, the Fund also seeks to enhance returns and grow NAV by investing opportunistically in credits with strong risk-adjusted price appreciation potential and employing a modest amount of leverage.

Risk management strategies include, but are not limited to, seniority, diversification, and intensive research. In addition, it is intended that the majority (and not less than 90%) of Portfolio investments, largely denominated in U.S. dollars, will be hedged to the Canadian dollar.

### Performance Review

In 2012, as noted above, the OCP Senior Credit Fund delivered a total return of 14.34%, including quarterly distributions totaling \$0.50 per unit. The year's strong performance resulted from a combination of a positive



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market environment, the avoidance of defaults in the Portfolio, and investments that benefitted from certain events, such as repayments ahead of stated maturities and amendment of terms.

The Fund has the following stated investment objectives:

- Provide holders of units with attractive, quarterly, tax-advantaged distributions, initially targeted to be \$0.50 per annum;
- Preserve capital; and
- Generate enhanced returns through increasing cash flow to the portfolio as interest rates rise.

Since inception, the Fund has paid stable distributions of 12.5 cents per quarter (\$0.50 per annum), or \$1.06 in total, resulting in an adjusted cost basis (ACB) of \$8.94 for investors who purchased shares on the offering. The Fund's net asset value per unit has grown from its opening net asset value of \$9.45 on November 19, 2010 to \$9.96 on January 30, 2013. The Fund employs a tax advantaged structure that results in distributions being treated as return of capital for tax purposes.

The prudent use of leverage contributed positively to investment returns. Leverage averaged 35% of total assets in 2012. The Fund may employ leverage of up to 40% of its total assets for the purpose of acquiring additional assets for the Portfolio. Leverage continues to be in the form of a committed, term facility provided by a AA rated Canadian Bank.

There have been no unanticipated defaults in the Portfolio since inception and we continue to expect the Portfolio's loans to be repaid in full at or before maturity, notwithstanding any position's current mark-to-market discount to par.

OCP continues to see an attractive investment environment in 2013 for the Fund's investment strategy.

### **Market Outlook**

In OCP's 2011 First Anniversary Letter, we correctly anticipated that the loan market would rebound in 2012 as investors refocused on credit fundamentals versus macroeconomic and technical issues. Looking ahead, we believe that the underpinnings of the senior secured loan market should remain intact. These underpinnings include slow but stable U.S. economic growth which will result in a low default rate and strong new issue activity. The loan default rate at the end of 2012 was 1.3% according to JP Morgan who forecasts the default rate to remain under 2% through 2014 as companies have made significant progress in strengthening their financial positions by cutting expenses and refinancing near term debt. The macro-environment has stabilized, evidenced by the reduction of tail risks in Europe and modest but positive U.S. economic growth lead by improving housing and employment trends. Of course, we acknowledge that resurgence in real or perceived systemic risks could materially impact our outlook.

OCP has confidence in its continued ability to meet the Fund's stated objectives of providing investors with attractive tax-advantaged income, preserving capital and enhancing return and NAV growth through increased portfolio cash flow should interest rates rise.



## Onex Credit Partners

Onex Credit Partners is the exclusive credit investing arm of Onex, specializing in credit-oriented investment strategies, including senior loans and non-investment grade bonds. The firm manages over \$2.3 billion on behalf of institutional, high net worth and retail investors. The OCP team has 19 full-time members with an average of 18 years of experience.

OCP's interests remain well aligned with investors. Onex, its affiliates, principals and employees continue to have a meaningful amount invested in the Fund's strategy.

Onex Credit Partners, LLC  
February 2013

(1) Performance calculation is based on the Fund's net asset value of \$8.97 per Unit on December 30, 2011 and \$9.75 per Unit on December 31, 2012, includes distributions in the amount of \$0.50 accrued in the period and is net of fees and expenses (including management fee of 1.5% per annum to OCP and servicing fee of 0.40% per annum to dealers). For 2012 performance of the CS Leveraged Loan Index was 9.42%. The Index is included to show the general trend in the loan market in the period indicated. These numbers are not intended to imply that the Portfolio was similar to the index either in composition or element of risk. 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. Past performance is not an indication of future results.

(2) Leverage defined as long positions exceeding equity capital.

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. 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.