



## **OCP Senior Credit Fund – 2013 Update**

### **Introduction**

The OCP Senior Credit Fund (the “Fund”, TSX: OSL.UN) concluded another strong year in 2013 delivering a net return of 10.24%, the result of growing its net asset value (“NAV”) from \$9.75 to \$10.25, while paying distributions of \$0.50 per Unit. The Fund achieved its investment objectives of paying Unitholders a tax advantaged distribution of \$0.50 per unit and preserving capital. Launched in 2010, the Fund continues to be an excellent source of attractive, stable, tax-advantaged income and an effective diversifier to investment grade and high yield bonds in a portfolio.

The Fund represents a conservative and prudent means for accessing the benefits of the asset class. The Fund is exposed to a portfolio comprised of carefully researched and selected credits, targets a distribution that is realistic across market environments, avoids undue credit and liquidity risk (e.g., no second lien loans, no structured credit), and has demonstrated the ability to build NAV. Our outlook for the senior loan market remains positive and we are confident in our ability to meet the Fund’s investment objectives going forward.

### **Performance Review**

The Fund’s 2013 return of 10.24% net, including distributions, compares favorably to the Credit Suisse Leveraged Loan Index which returned 6.15%. The Fund’s NAV has grown from \$9.45 upon closing of its IPO on November 19, 2010 to \$10.25 on December 31, 2013 while making cash distributions of \$1.56 per Unit. Because these distributions have been treated as a return of capital due to the Fund’s tax structure, all distributions have been tax-deferred return of capital. As of January 29, 2014, the NAV was \$10.36 per Unit. Performance in 2013 benefitted from our credit selection, the avoidance of defaults, the prudent use of leverage, the occurrence of events such as the repayment of loans ahead of their stated maturities that drove gains beyond interest income, and a positive market environment.

At year end, the Fund’s portfolio was comprised of 63 specific credits which we believe balances diversification with our ability to add incremental performance through credit selection and portfolio construction. The Fund’s exposure averaged 163% of net assets in 2013 and the source of leverage for the Portfolio continues to be in the form of a committed facility provided by highly rated Canadian bank. We renegotiated the leverage facility in 2013, lowering the cost to the Fund.

Consistent with its investment strategy, we continued to focus investments only on first lien, senior secured loans and first lien bonds. Our investment selection criteria has enabled the Fund to pay its realistic 5% distribution and build NAV while not assuming additional default and/or liquidity risk of lower rated and/or smaller issues. The Portfolio has no exposure to second lien loans or structured credit tranches, even though these riskier market segments significantly outperformed the broader market.

## Market Outlook

Markets delivered another year of solid gains in 2013 as global risks moderated, global economies grew, and investors gained confidence in the U.S. Federal Reserve's intent to keep short term rates near zero. Based on the broad range of companies we follow and invest in, our outlook is for the U.S. economy to deliver modest but stable growth that is sufficient to keep senior loan defaults below their historical averages. Notwithstanding this outlook, a heavily indebted power company, which is not in the Portfolio, is widely expected to default in 2014 due to company-specific, not economy-wide, issues. This event will push the reported default rate materially higher, but does not change our positive loan market outlook.

Through our research process, we continue to identify credits that meet our investment criteria and will allow the Fund to continue to achieve its target distribution. An allocation to senior loans remains prudent given their defensive characteristics (i.e., seniority in the capital structure and security of a first lien on borrowers' assets) and yields that remain attractive versus other fixed income types. And, with rates moving higher, senior loan's floating rate income is more critical in a portfolio, especially as a diversifier for fixed rate government and high yield bonds. Fundamental credit selection will be a greater differentiator of performance than a broad market approach in the coming year which favors Onex Credit's bottom up investment style and the Fund's portfolio construction.

## Firm Update

Onex Credit manages US\$3.3 billion, up from US\$2.3 billion at the end of 2012. We have continued to add resources ahead of anticipated growth and at December 31, 2013 the team totaled 24 members, up from 19 a year earlier. The team's average number of years of experience is 19. Onex Credit'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.

## Summary

We are pleased with the Fund's performance upon completion of its third year since inception. To recap, the Fund's key 2013 highlights were:

- **Achieved investment objectives**
  - Paid Unitholders a tax advantaged distribution of \$0.50 per unit and preserved capital
  - Invested in companies with strong market positions and significant asset and/or cash flow coverage resulting in strong principal protection
- **Strong absolute and relative performance**
  - 2013 net return of 10.24%, including distributions of \$0.50 per Unit, versus the Credit Suisse Leveraged Loan Index return of 6.15%
- **NAV growth above opening level**
  - Growth from \$9.75 (12/31/12) to \$10.25 (12/31/13), meaningfully above the \$9.45 (11/19/10) opening NAV
- **Lowered borrowing cost**
  - Benefit to the NAV
- **Continued avoidance of defaults in the portfolio**
  - No defaults since inception



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Our outlook for the senior loan market is positive based on modest U.S. economic growth and below average defaults (notwithstanding the caveat outlined earlier). We acknowledge that the resurgence of global risks - economic, political, and conflict related - could impact this outlook and we will adhere steadfastly to the Fund's prudent investment approach. Finally, we are committed to Canadian retail investors and will continue to introduce products that we believe represent timely and attractive opportunities within our areas of investment expertise for ourselves and our investors.

Onex Credit Partners, LLC  
February 2014

1) Performance calculation is based on the Fund's net asset value of \$9.75 per Unit on December 31, 2012 and \$10.25 per Unit on December 31, 2013, 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 2013, performance of the CS Leveraged Loan Index (the "Index") was 6.15%. 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, 2012 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 incurrance of expenses and payment of distributions by the Fund.