

## **OCP SENIOR CREDIT FUND**

Interim Management Report of Fund Performance for the period  
**January 1, 2017 to June 30, 2017**

**Fund:**

OCP Senior Credit Fund

**Units:**

Listed TSX: OSL.UN

**Period:**

January 1, 2017 to June 30, 2017

**Manager:**

Onex Credit Partners, LLC

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**Notes:**

1. This Interim Management Report of Fund Performance contains financial highlights but does not contain the complete Interim Financial Statements of the Fund. You can get a copy of the Interim 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 June 30, 2017.
4. None of the websites that are referred to in this Interim Management Report of Fund Performance, nor any of the information on any such websites, are incorporated by reference in this Interim Management Report of Fund Performance.

## Investment Objectives and Strategies

The Fund invests in an actively managed, diversified portfolio (the "Portfolio") comprised primarily of senior secured loans and other senior debt obligations of non-investment grade North American issuers. Onex Credit Partners, LLC (the "Manager") is the manager of the Fund and also manages the Portfolio. The Fund seeks to achieve the following investment objectives: (i) to provide unitholders with attractive, quarterly distributions, currently targeted to be \$0.125 per quarter (\$0.50 per year to yield 5% per year based on the \$10.00 subscription price); (ii) to preserve capital; and (iii) to generate enhanced return through increasing cash flow to the Portfolio as interest rates rise. The Manager seeks to generate attractive risk-adjusted returns and stable income through a long only strategy focused on senior secured loans and other senior debt obligations of non-investment grade issuers that the Manager believes have strong market positions, attractive and sustainable business models and high quality management teams. In pursuit of its objectives, the Fund anticipates it will employ leverage of up to 40% of its total assets.

## Results of Operations

For the six-month period ended June 30, 2017, net assets per unit of the Fund was \$10.29 after payment of cash distributions to securityholders of \$0.25 per unit compared to \$10.36 on December 31, 2016. Total return for the Fund was 1.8% over the period.

The Fund's net assets were \$124.1 million as at June 30, 2017, a decrease from \$153.4 million as at December 31, 2016. Factors contributing to this decrease include: (i) redemptions of \$28.7 million; and (ii) cash distributions to securityholders of \$3.4 million. This was offset in part by net income and net gains on investments of \$2.8 million.

During the period, performance was driven primarily by strong credit markets, prudent asset selection and portfolio leverage. The Portfolio is levered at 1.64x, which is up slightly from the end of 2016.

The vast majority of the leveraged loan market is trading near par and defaults (aside from commodities) are near historical lows. The Portfolio performed as expected and leverage was in-line with historical levels.

The Fund's long exposure increased modestly across both high-yield bonds and leveraged loans.

The composition and changes to the composition of the Portfolio in the period were consistent with the investment objectives and overall strategy of the Fund. Capital was deployed primarily in floating rate, senior secured loan positions. Investments were selected for their strong asset coverage and/or cash flow coverage, among other criteria.

Investors are searching for positive yield during a time of negative or low rates around the world, and this demand has helped support the credit markets.

Further volatility in oil prices, uncertainty regarding the new U.S. administration and other geopolitical concerns could bring volatility to the credit markets. The Manager continues to find opportunities that it believes will augment the Portfolio and is monitoring global events and potential impacts closely.

## Recent Developments

The Manager is cautiously optimistic in the current environment, though it expects there could be some near-term volatility in the markets. In a rising rate environment, leveraged loans' floating rate coupons make them highly complementary to an investment portfolio, as they help to minimize duration risk. As well, the Manager's general tendency to invest in first-lien, senior secured debt (with ample subordination in the capital structure) is a prudent use of capital, should some level of volatility return to the markets.

## 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 Manager and the Fund were not party to any other related party transactions during the period ended June 30, 2017.

# 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 for the past six periods.

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

	2017	2016	2015	2014	2013	2012
<b>Equity/Net Assets, beginning of period</b>	<b>\$10.36</b>	\$9.04	\$10.05	\$10.25	\$9.75	\$8.97
<b>Earnings from operations:</b>						
Total revenue	<b>0.54</b>	1.01	0.13	0.00	0.00	0.00
Total expenses	<b>(0.22)</b>	(0.37)	(0.17)	(0.13)	(0.11)	(0.10)
Realized gains (losses) for the period	<b>0.17</b>	0.19	3.32	0.78	0.24	0.10
Unrealized gains (losses) for the period	<b>(0.30)</b>	0.94	(3.50)	(0.31)	0.87	1.28
<b>Total Earnings (loss) from operations <sup>(2)</sup></b>	<b>0.19</b>	1.77	(0.22)	0.34	1.00	1.28
<b>Distributions:</b>						
From income (excluding dividends)	<b>(0.25)</b>	(0.76)	0.00	0.00	0.00	0.00
From dividends	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00
From capital gains	<b>0.00</b>	(0.01)	(1.14)	0.00	0.00	0.00
Return of capital	<b>0.00</b>	0.00	0.00	(0.50)	(0.50)	(0.50)
<b>Total Distributions <sup>(3)</sup></b>	<b>(0.25)</b>	(0.77)	(1.14)	(0.50)	(0.50)	(0.50)
<b>Equity/Net Assets, end of period <sup>(4)</sup></b>	<b>\$10.29</b>	\$10.36	\$9.04	\$10.05	\$10.25	\$9.75

### Notes:

<sup>(1)</sup> This information is derived from the Fund's audited annual and unaudited interim financial statements. The Fund adopted IFRS on January 1, 2014. Previously, the Fund prepared its financial statements in accordance with Canadian GAAP. Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with CICA Handbook Section 3855 which required the use of bid prices for long positions and ask prices for short positions. Under IFRS, the Fund measures the fair value of its investments using the guidance in IFRS 13 which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. Accordingly, the opening net assets as at January 1, 2013 was restated to reflect the accounting policy adjustments made in accordance with IFRS. All figures presented for periods prior to January 1, 2013 remain in accordance with Canadian GAAP.

<sup>(2)</sup> Equity/Net assets and distributions are based on the actual number of units outstanding at the relevant time. The earnings from operations are based on the weighted average number of units outstanding over the financial period.

<sup>(3)</sup> Distributions were paid in cash, or reinvested in additional units of the Fund.

<sup>(4)</sup> This is not a reconciliation of the beginning and ending equity/net assets per unit.

## RATIOS AND SUPPLEMENTAL DATA

	2017	2016	2015	2014	2013	2012
Total Equity/Net Asset Value (000s) <sup>(1)</sup>	<b>\$124,143</b>	\$153,423	\$176,271	\$244,015	\$299,075	\$309,258
Number of units outstanding <sup>(1)</sup>	<b>12,068,945</b>	14,815,741	19,493,590	24,275,577	29,176,493	31,712,469
Management expense ratio <sup>(2)</sup>	<b>4.32%</b>	3.90%	3.63%	3.32%	3.52%	3.36%
Management expense ratio before waivers or absorptions	<b>4.32%</b>	3.90%	3.63%	3.32%	3.52%	3.36%
Trading expense ratio <sup>(3)</sup>	<b>0.00%</b>	0.00%	0.24%	0.27%	0.27%	0.28%
Portfolio turnover rate <sup>(4)</sup>	<b>60.6%</b>	46.75%	5.23%	N/A	N/A	N/A
Equity/Net Asset Value per unit	<b>\$10.29</b>	\$10.36	\$9.04	\$10.05	\$10.25	\$9.75
Closing market price	<b>\$10.21</b>	\$10.16	\$8.84	\$9.73	\$10.03	\$9.85

### Notes:

- <sup>(1)</sup> This information is provided as at December 31 of the year shown, except 2017 which is provided as at June 30.
- <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 equity/net asset value during the period. Total expenses also include interest expense related to the total return swap. The MER for the periods ended June 30, 2017, December 31, 2016, 2015, 2014, 2013 and 2012, excluding interest expense are 2.34%, 2.32%, 2.35%, 2.27%, 2.28% and 2.29%, respectively.
- <sup>(3)</sup> The trading expense ratio represents total commissions, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average equity/net asset value during the period. The Fund stopped paying forward agreement fees after November 19, 2015.
- <sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's investment 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 period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

For the periods prior to November 19, 2015, the Fund's return was linked, by virtue of a forward agreement, to the performance of a portfolio comprised primarily of senior secured loans and other senior debt obligations of non-investment grade North American issuers, and consequently, the portfolio turnover rate did not apply to the 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 1.50% of the net asset value of the Fund, calculated daily and paid monthly in arrears.

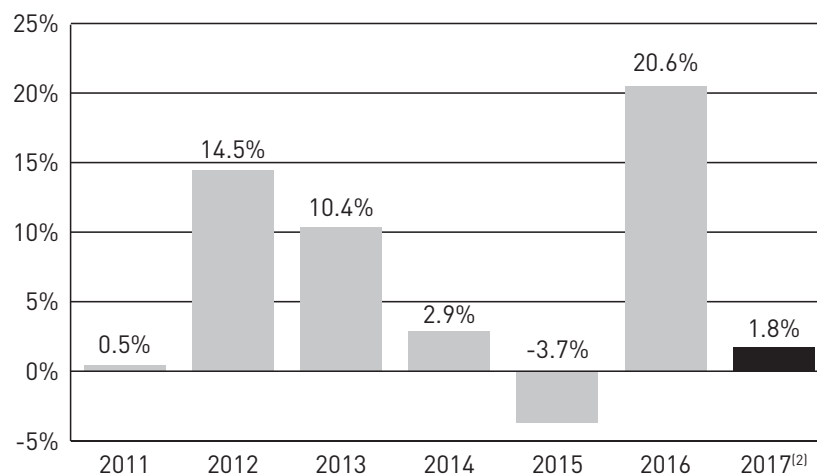
The Manager has retained FA Administration Services Inc. to provide certain administrative services to the Fund. The Manager pays FA Administration Services Inc. out of its management fee.

## 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 interim and annual performance for the periods shown and illustrates how the Fund's performance has changed from period to period. 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 equity/net asset value per unit.

<sup>(2)</sup> Return for the period January 1, 2017 to June 30, 2017.

## Summary of Investment Portfolio

As at June 30, 2017, one of the portfolio holdings in the Fund is a total return swap. The following is a summary of the Fund's portfolio as at June 30, 2017 assuming that the underlying assets of the total return swap were held directly by the Fund. This is a summary only and will change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on [www.ocpseniorcredit.com](http://www.ocpseniorcredit.com).

The percentages set forth in this Summary of Investment Portfolio may vary from the percentages set forth in the monthly updates prepared by the Fund. Chief among the reasons for the variance is that (i) the sector allocation in the summary is based on a percentage of net asset value and the monthly updates are based on a percentage of invested capital (direct investments plus exposure under the total return swap) and (ii) the summary reflects cash held by the Fund and the monthly update reflects only the direct investments held by the Fund plus exposure under the total return swap. Securityholders can obtain additional information by visiting our website at [www.ocpseniorcredit.com](http://www.ocpseniorcredit.com).

## TOP 25 HOLDINGS AS AT JUNE 30, 2017

Description	% of Equity/Net Asset Value
<b>Long Positions</b>	
Cash including cash on deposit with brokers as collateral	55.24
Alon USA Partners LP	8.87
Ceva Group PLC	7.86
Altegrity Inc.	5.15
Eastman Kodak Co.	5.11
YRC Worldwide Inc.	5.10
Federal Mogul Corp.	5.01
University Support Services LLC	4.72
J.C. Penney Corporation Inc.	4.43
Albertson's LLC	4.39
BWay Intermediate Co. Inc.	4.27
Creative Artists Agency LLC	4.10
Brand Energy & Infrastructure Services, Inc.	4.06
STG-Fairway ACQ Inc.	3.78
Vizient, Inc.	3.71
DTI Holdco, Inc.	3.25
ADG LLC.	3.22
Array Canada Inc.	2.96
AVSC Holding Corp.	2.91
Veritas US Inc.	2.85
Aveta, Inc.	2.65
Twist Beauty International Holdings S.A.	2.63
Endo Luxembourg Finance Company I S.à r.l.	2.49
Vistra Operations Company LLC	2.47
U.S. Anesthesia Partners Inc.	2.45
<b>Total Net Asset Value</b>	<b>\$124,142,878</b>



## SECTOR ALLOCATION AS AT JUNE 30, 2017

Industry	% of Equity/Net Asset Value
<b>Long Positions</b>	
Cash including cash on deposit with brokers as collateral	55.24
Business Services	24.33
Healthcare	20.10
Technology	16.89
Retail	15.11
Energy	12.17
Transportation/Logistics	9.88
Packaging	6.89
Automobiles	6.73
Gaming/Leisure	5.94
Trucking	5.10
Telecom	4.56
Independent Power Producers	4.24
Energy Service	3.70
Food	3.25
Consumer Durables	2.96
Education	2.94
Pharmaceuticals	2.80
Service	2.75
Shipping – Jones Act	2.41
Chemicals	1.85
Housing/Building Products	1.63
Media	1.28
Manufacturing	1.20
Aerospace	1.20
Forest Prod/Containers	0.96
Environmental Services	0.91
Metals/Minerals	0.70
Consumer Non-Durables	0.44
Finance	0.40

Portfolio Composition	% of Equity/Net Asset Value
<b>Long Positions</b>	
Bank debt	148.53
Cash including cash on deposit with brokers as collateral	55.24
Bonds	14.76
Equity	0.02

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