



The Pause that Refreshes | April 2015

“Luck is a matter of preparation meeting opportunity”

Lucius Annaeus Seneca

The Fund

Coca-Cola used the slogan “the pause that refreshes” to sell Coke 85 years ago. Today, it serves to remind me that when pursuing a goal, it makes sense to pause every now and again to assess one’s progress. As fate would have it, we launched the Algonquin Debt Strategies Fund on the very day that Canadian 10yr bond yields hit their record lows at 1.23%. Buyers of Canadian 10yr bonds on February 2nd would be facing a capital loss of more than 3% at April month end. On the other hand, investors in the Algonquin Debt Strategies Fund have enjoyed a return in excess of 6% over the same period.

So, have we just been lucky? The environment into which we launched the Algonquin Debt Strategies Fund was no doubt favourable to our cause as credit spreads had widened significantly in the fall, new issue activity had been light, and investor pent up demand was ravenous. As Lucius Seneca pointed out 2000 years ago, one needs to be ready when opportunity knocks. In our case, the setting allowed us to utilize not only the trading skills we have honed as market makers over the years, but also the relationships we have fostered with sales people, traders and syndicate folks on Bay Street. So the answer to the question is both a resounding “yes” and a resounding “no.” While we were lucky to have a target rich environment, we had the skills and knowledge to exploit it.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
N/A	2.29%	2.51%	1.27%	-	-	-	-	-	-	-	-	6.18%

The Algonquin Debt Strategies Fund LP was launched on February 2, 2015. Monthly returns are based on 'Series 1 X Founder's Class' NAV as calculated by SGGG Fund Services Inc. and are shown in Canadian dollars, net of all fees and expenses.

Credit

Even Usain Bolt must take a rest between sprints, so I wasn’t terribly surprised when after a record breaking Q1, Canadian bond supply fell below historical averages in April. The good news for investors was that this allowed for an orderly transition of recent issuance into stronger hands, resulting in modest spread performance in bank deposit notes, energy related bonds and across most of the REIT space. We maintained a light credit risk profile early in the month due to renewed tensions surrounding Greece’s negotiations with their creditors, and increased our risk once it was clear that the proverbial can had been firmly kicked into May. With the flood of new issues digested, I believe the market is ready for supply once more, and we have positioned the portfolio so that we can actively participate in any attractive primary deals that may come along.



Rates

The economic data throughout the month did little to change our view that the Bank of Canada will not cut rates any further this year, and that the Federal Reserve will hike rates in September. We went into the April Bank of Canada meeting with a tactical outright short position in two year bonds, which were effectively priced for a 25bps cut at the time. We unwound the trade shortly afterwards for a profit as the front-end yields rose when the Bank of Canada kept rates unchanged. Over in Europe, we were surprised at how quickly the mood changed as the capitulation in German Bunds prompted a global sell-off in fixed income. I'm kicking myself for missing an opportunity to establish a short position further out on the yield curve. At least we maintained a well hedged portfolio throughout the downturn, so the only damage done was to my ego. That being said, the recent volatility in interest rates has been striking and at times even dangerous. From a capital preservation standpoint I see no harm in waiting patiently on the sidelines for the dust to clear. We will concentrate on our core credit strategies instead.

Regards,

Brian

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