



Firing on all Cylinders | May 2015

"I fear the Greeks, even when they bring gifts."
Virgil

The Fund

Along with the warmer and longer days that mark the beginning of patio season, May brought with it a host of challenges for investors to grapple with. The prospect of a Fed hike coupled with the volatility in European bond markets and the exasperating negotiations between Greece and its creditors caused jitters on both sides of the Atlantic. In light of these conditions, we cautiously allocated our capital and diligently controlled our overall exposures. This conservative approach placed more emphasis on our core carry and relative value strategies which performed faithfully, while ample active trading opportunities in both credit and rates contributed excess returns.

As we head into June, we can only hope to find closure on Greece. Given the time constraints and how little either side is willing to bend, the risk of an accident appears to have risen materially. In some ways, I think the best outcome could be for Greece to default and then let things play out as they may, since any agreement at this stage will merely kick the can further down the road as it has been so many times before. A default might put Greece onto a sustainable economic path. The uncertainty should be put to rest once and for all and not delayed any further. While the financial markets could become unglued in the short term, I think they would settle down in fairly short order as Greece's odyssey draws to a close.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
N/A	2.29%	2.51%	1.27%	2.46%	-	-	-	-	-	-	-	8.79%

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

May saw the return of the 'borrower', with corporate new issue supply reaching \$8.1 billion. After an onslaught of Canadian bank debt, it was good to see a more diverse array of issuers, including a \$1 Billion US Maple deal. For the most part deals continued to be well received, however secondary market performance was not as strong as earlier in the year. We expect to see the recent pace of issuance extend into June as several companies are in the process of wrapping up roadshows, which generally culminate in deals being announced. We believe that institutions with vast distribution engines (banks) continue to see strong inflows into their fixed income funds and remain aggressive technical buyers, while smaller accounts are becoming more selective. With these factors in mind, we remain wary of a widening in credit driven by supply fatigue.



Rates

After sitting on the sidelines for the bond market sell-off in April, we couldn't help ourselves and joined the party. We established a modest short position in rates, and took profits once the market hit our target levels.

The 0.6% drop in Canadian Q1 GDP was much weaker than anyone expected, sparking the market into pricing a healthy chance of a further rate cut. With commodity prices in a funk, and provincial tax hikes offsetting federal tax cuts, it is difficult to see how job creation will take hold in the short to medium term. Although I feel like "waffling", I will stick to my original call that the Bank of Canada will remain on hold for the balance of the year.

US data has been uninspiring to say the least. The Q2 data hasn't bounced back to the extent people were expecting after a lousy Q1. From what I can tell, US consumers are saving the windfall of lower gasoline prices rather than spending it. Despite seemingly lacklustre numbers, I believe the US economy is on a good track which means that a Fed Funds rate of nearly zero is no longer warranted. I still expect the first hike to come in September with subsequent increases coming at a slow pace.

Regards

Brian

Contact

Algonquin Capital Corporation
1 Yonge Street, Suite 1801
Toronto, Ontario, M5E 1W7
www.algonquincap.com

Raj Tandon
Founding Partner
raj.tandon@algonquincap.com
+1 (416) 214-3493

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