NEWGEN
ASSET MANAGEMENT

The NewGen Credit Strategies Fund, a corporate credit-focused liquid alternative strategy, ended April with a Class C NAV of $10.86 compared to $10.79 at the end of the prior month and the inception NAV of $10.00. Our Net Exposure at month-end was 80.0% and Gross Exposure was 91.5% versus 67.5%/87.4% at the end of March.

## Core Corporate Carry (44% of NAV, 19 positions)

A quick summary of our Core Corporate carry portfolio:

| Price | Yield | Credit Spread | Duration | US/Canadian |
|---|---|---|---|---|
| 91.1 | 8.04% | 435 bps | 3.8 years | 61%/39% |

| Positive Performance | Performance Detractors |
|---|---|
| Carriage Services CSV 4.25% 2029 | Arko Corporation ARKO 5.125% 2029 |
| Baytex Energy BTECN 8.75% 2027 | Floating Rate Preferreds |
| Canadian AT1 Securities | N/A |

### *Arko Corporation*

Arko, a US convenience store operator, launched a competing bid to acquire Travel Centers of America ("TA"), after TA agreed to sell itself to BP plc. The complex competing bid would see Arko lever-up and use most of its debt capacity to finance the transaction. The bonds traded down from 84 down to 81 cents to yield 9%. After reviewing the bid, we felt it was unlikely Arko could finance the proposed acquisition which was opposed by TA itself. We took the opportunity to add to our existing position as we like the management team of Arko and while they are no doubt acquisitive, they are good operators. We think the M&A risk is already priced into the credit at 9%.

## Event-Driven (~29%, 12 positions)

We closed four event-driven positions during the month:

*Brookfield Select Opportunities Fund ("BSO-U") – Credit-Focused Closed End Fund Liquidation*

On December 19, Brookfield, BSO's Fund Manager, issued a press release stating the following: *"the investment manager, is considering various strategic alternatives for the Fund given its small size. This includes, reducing the Fund's quarterly distribution in 2023, a potential reorganization into another fund or liquidation of the Fund. PSG will provide an update once it determines to advance one of these strategic options and expects to be in a position to do so by the end of the first quarter 2023."*

BSO was trading at $5.55 at the time even though its NAV was only $1.76 as the Fund never adjusted its distribution downward as the income from the underlying portfolio declined. Investors flocked to its ~30% yield even though much of the distribution was return of capital. The Fund's own disclosure stated that it paid out way more than they earned. We shorted BSO in Q1 awaiting the event and on March 14 Brookfield announced they were liquidating the Fund and holders would receive the NAV by the end of April. We took a second bite at the apple when the Units traded down to as low as

$1.25 even through the NAV was $1.58. We covered our short position and went long the Units on the same day and continued to buy aggressively right up until the Liquidation Date. The Fund received $1.605 in cash on April 25.

*Rogers Communications - RCICN 5.25% 2082 Junior Subordinated Bonds – Index Event*

RCI issued investment grade "hybrid" bonds in February 2022 to finance part of the Shaw acquisition. It was widely known that the credit rating of these bonds would be downgraded to high yield following the closing of the transaction. As expected, on April 6, the bonds were formally downgraded by Moody's and S&P. The downgrade caused *forced selling* by investment grade index funds and as a result we bought some bonds at an attractive level from an indexer. Then at the end of the month, the bond formally entered a high yield index which then caused aggressive *forced buying.* We then sold the bonds to another indexer at a higher level than where we bought them.

*Maxar Technologies – MAXR 7.75% 06/27 Senior Secured 1st Lien Bonds – Make-Whole Redemption*

We accumulated the bonds at an average price of ~105.125 after a thorough read of the bond indenture indicated that as part of the take-private transaction the private equity sponsor would have to redeem the bonds using its "make-whole" privileges. The bonds were redeemed at ~106.5 and we collected a 7.75% coupon while waiting for the redemption.

*Seaspan - SSW 6.50% 2026 Senior Unsecured Euro-dollar Bonds – Change of Control Offer*

Our position was redeemed at a price of 101 following a Change of Control Offer. Atlas Corporation, the Parent of Seaspan, was taken private on March 28th and as a result the Company was required to offer us a redemption price of 101.

## Liquidity Provision (~25%)

The Fund had 25% of its NAV in cash and cash equivalents at month-end but this number can fluctuate throughout the month based on our active trading. We purchased a "hard-called" IG bond during the month at a 6% 30-day yield.

## Special Situations/Stressed Credit (~7%, 4 positions)

We finally found a few opportunities to deploy capital within this sleeve. We acquired a position in a security tied to the commercial real estate market at an interest equivalent running yield of ~17%. Having had a bearish position in commercial real estate credit for most of the year we now think opportunities are beginning to emerge on the long side. The constant negative sentiment on commercial real estate, particularly office, has caused a wash out in securities prices across a wide range of credits even though the balance sheet structures, and asset quality vary widely. In addition, we purchased a 1st lien secured bond from a performing credit that yields 15%. This was done via the primary market, a first for the Fund.

## Risk Management Overlay

- We have maintained our short position in USD investment grade credit spreads because of an expected busy month of primary issuance that could see credit spreads widen from April levels.
- We did not roll our bearish HYG option structure on expiry but instead replaced it with a short position in HYG. HYG is trading at ~50 bps premium to NAV.

We are currently focused on scaling two attractive event-driven trades and harvesting a handful of what we think are profitable existing event-driven trades scheduled to roll-off in the next 3 months.