NEWGEN
ASSET MANAGEMENT

The NewGen Credit Strategies Fund, a corporate credit-focused liquid alternative strategy, ended May with a Class C NAV of $10.854 compared to $10.862 at the end of the prior month and the inception NAV of $10.00. Our Net Exposure at month-end was 77% and Gross Exposure was 85% versus 68%/87% at the end of April.

Core Corporate (53% of NAV, 20 positions)

A quick summary of our Core Corporate carry portfolio. A notable metric is our high allocation to senior secured bonds.

Price	Yield-to-Worst	Cash Yield	Credit Spread	Duration	Credit Rating	Secured %
90.38	8.37%	6.94%	452 bps	3.78 years	BB-	44.6%

Positive Performance	Performance Detractors
Titan International TWI 7% 04/28	Carriage Services CSV 4.25% 05/29
TD Bank TD 8.125% 10/82	Vector Group VGR 5.75% 02/29
Winnebago Industries WGO 6.25% 07/28	Canadian Floating Rate Preferreds

Exited Positions

We sold our position in SeaWorld {*SEAS 5.25% 2029}* bonds at 91.25 to yield 7% simply on bond valuation relative to credit risk. SeaWorld is very well managed and has a good balance sheet but has a yet to be unveiled plan to build hotels on its amusement properties which could see leverage rise. However, at the right price these bonds could re-enter the portfolio.

New Positions

We initiated a position in the $400mm senior secured 1st lien bonds of G-III Apparel {*GIII 7.875% 2025*}. GIII is a well managed 3rd-generation apparel business started in 1956 that has been public since 1989. The Company sources and markets apparel under brand licenses such as Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. The Company has: a) no material debt other than the subject bonds, b) $650mm undrawn credit facility, c) $175mm of cash, d) +$700mm market cap, e) $675mm of accounts receivable and $709mm of inventory, f) generated ~$200mm of Free Cash Flow in FY2023. At a 10.5% yield for what is likely to be a 1.5-year duration bond given the propensity of high yield companies to refinance one year in advance of a maturity we think the bonds are good value and therefore accumulated a position.

Event-Driven (~29%, 12 positions)

Ford Motor Credit Canada ("FMCC")

We initiated a position in one of FMCC's unsecured bonds with the thesis that they will be upgraded to Investment Grade in late-2023/early-2024. The bonds we own by our math are the cheapest of the dozens of FMCC bonds issued globally across multiple currencies. We bought the bonds with a credit spread of 392 bps which compares to ~285 bps for a similar bond in USD and ~315 bps in GBP. GM Financial, the nearest comparable to FMCC, is investment grade and trades with a credit spread of between 165-195 bps for a similar maturity instrument.

If we assume that FMCC is upgraded to investment grade by March 31, 2024, and the bonds tighten to +50 bps above GM Financial then we could see a +2.50% capital gain plus the 7.375% running coupon for a 1-year total return of ~9.9%.

First Horizon Bank ("FHN") / TD Bank Risk Arbitrage

We purchased FHN bonds under the thesis that TD Bank would ultimately acquire FHN but at a "recut" equity price. Part of our conviction was the motivation on both sides to see a deal through to completion was high, albeit at a lower equity price. We bought our FHN bonds at a credit spread of ~340 bps compared to similar TD Bank debt trading at ~170 bps at the time. Should the take-over have been completed, FHN's bonds would have eventually traded at a similar credit spread and generated a 10% capital gain plus a running coupon of ~6%. Unfortunately, we were wrong as the transaction failed, reportedly based on a yet to be disclosed issue the US regulators had with TD bank anti-money laundering compliance. Once our thesis was wrong, we made the decision to exit the position as tactically as possible. We waited for other risk arbitrage sellers to exit over the first week after the deal broke and the bonds rallied 16 pts off the low and we sold the entire position crystalizing a loss for the Fund.

Liquidity Provision (~23%)

The Fund had 23% of its NAV in cash and cash equivalents at month-end but this number can fluctuate throughout the month.

Special Situations/Stressed Credit (~6.3%, 6 positions)

We added two new positions during the month, one short and one long.

Mining Company

The Company is currently developing a new mine and surprised the market by obtaining new 2nd lien financing with a group of distressed lenders at a high effective cost of ~14%. The new shorter maturity loan is ranked senior to the bonds and has a maintenance covenant. This transaction is what we call "getting primed". We shorted the unsecured bonds at a yield of <11% and given they mature outside of the new financing and are lower ranked in priority in theory they should trade at a higher yield than 14%. The short is a cheap option on the mine falling to start up which could lead to a covenant breach but most importantly, the bonds should not trade at a materially lower yield than were the new debt was raised.

Specialty Finance

We bought the bonds in a Speciality Finance company at a yield of ~16% and a price < 80 cents. We partially hedged the position with a short position in the common stock as we think there is a disconnect in the valuation of the two parts of the capital structure.

Summary

Corporate defaults are rising, and credit conditions are tightening. Avoidance of defaults will be key to outperformance in the months ahead. Credit selection is the process of *exclusion* not *inclusion* (i.e., it is the bonds you don't buy that matter more than the bonds you buy). Some prognosticators believe high yield credit spreads are too tight given where we are in the cycle, and we have some sympathy for that argument. A reasonably bad scenario is that spreads widen 200 bps but this likely means a decline in government yields as they are often negatively correlated. If government yields decline by 100 bps this would imply a net rise in high yield bond yields from ~9% to 10% and a 3.7% capital loss on the High Yield Index. However, the running yield on high yield is ~6.7% or 58 bps per month with a yield-to-worst of ~9%. So practically, using the simple scenario math above, if you think credit spreads are too tight and want to "time the market" you need spreads to really blow out in the next 6 months or so to be better off simply holding onto the asset class and accepting the net return of "carry less capital loss" while avoiding the friction costs of buying and selling. *We are being cautious and prudent but the opportunity cost of being too negative on corporate credit is quite high at these elevated yields.*