Letter XIV – March 2024

The NewGen Credit Strategies Fund, a corporate credit-focused liquid alternative strategy, generated a net return of 1.3% on the Class C units during the month of March. Our Net Exposure at month-end was 76% and Gross Exposure was 109% versus 76%/107% at the end of February.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	4.4%	1.1%	2.2%	0.7%	-0.1%	1.0%	1.2%	0.5%	0.2%	-1.4%	2.7%	1.6%	**15.0%**
2024	2.6%	0.8%	1.3%										**4.8%**

Year-to-date the USD High Yield market is up 1.23% and a generic Hedge Fund Event Driven Index we track is up 0.72%. For Q1 2024, please see below for a breakdown of gains (gross of fees):

Interest Income	20%
Eligible Dividend Income	8%
Foreign Dividends	2%
Realized Gains	32%
Unrealized Gains	38%
	100%

Core Corporate (36% of NAV, 12 positions)

We continue to de-risk our Core Corporate Carry portfolio. Less than 1/3 of the portfolio now sits in USD High Yield, the balance is in short-dated busted convertibles, preferred shares, aircraft-backed equipment trust certificates, investment grade obligors. For context, when high yield spreads were much wider in early 2023 we had significantly more exposure to USD High Yield in this sub-portfolio. However, we now think USD High Yield is one of the richer corporate credit asset classes, hence our flight to quality. We are not discouraged, as there are always pockets of opportunity to find attractive, higher yielding core assets in the multi-trillion-dollar corporate credit asset class.

Event-Driven (~30%, 19 positions)

The opportunity set in event-driven credit is the best we have seen in terms of *frequency* of opportunities since the Fund's inception. We added at least a half dozen new positions to the Fund in March at attractive IRRs, including a few short positions.

We added a short position in an investment grade REIT that we think will get downgraded to junk and cause forced selling by investment grade index funds. Investment grade bonds usually trade on "spread" not yield/price like high yield bonds. Once a credit gets downgraded to junk it is most likely to be evaluated on a yield or price basis, likely causing this bond to trade down due to its position on the credit curve.

We unwound our Long Videotron/Short Cogeco pairs trade at a 23 bps credit spread differential having put in on at around 100 bps. We think eventually QBRCN bonds trade tight to CCACN bonds but elected to leave the last 20 bps or so for someone else as the risk/reward no longer justifies the position.

We were actively trading Inter Pipeline {IPLCN} investment grade debt during the month. DBRS put them on Negative Credit watch because of issues at their Heartland petrochemical facility. This caused spreads to blow out 25 bps. We "bought the credit spread wides" across the 2034, 2044 and 2051 bonds when it was alleged that there had been zero

"long-only/real money" buyers. We then sold our position roughly 13 bps tighter a few days later for a capital gain. This was a repeat of a trade we did last year where AT&T CAD Long bonds blew out after a WSJ article about lead in their cables. Capturing 10-20 bps moves in investment grade long bonds can be profitable venture given the duration of the bonds allowing for quick 1-3 point capital gains.

Liquidity Provision (~24%) - We continue to hold a healthy weight in cash and cash equivalents.

Special Situations/Stressed Credit (~19%, 6 positions)

We made no changes to this portfolio in March. However, we generated significant gains from our ~5% position in the busted convertible bonds of Dye and Durham {DNDCN 3.75% 26}. We started buying the bonds in the mid 70s last year. The credit has been subject to a cornucopia of events in the last few quarters (see Appendix). As each event unfolded and new information revealed, the probability of getting Par back early increased. When probabilities change…prices should change. At each node, we did not take profits but in fact increased our position at incrementally higher prices. We now expect to get close to Par back on our position shortly. Round trip the position generated 130 bps of gross return. This is a good example of a situation where we have been able to take multiple bites of the same apple by sticking with a position.

Telecommunications, Media, Cable Satellite

Pain continues to spread in this corner of the credit markets, we only point it out because perceived credit risk often starts in certain sectors or names but tends to spread like a disease. Several Mêlée à Trois' are breaking out across several TMT credits as secured bondholders, unsecured bondholders and common equity holders battle each other to grab whatever they can on declining enterprise values. Being a small creditor in a distressed situation is a treacherous proposition this credit cycle compared to prior ones, as the trend has been towards companies pursuing "Liability Management Exercises" rather than simply filing for Chapter 11. These LMEs often prejudice smaller, passive investors as large, distressed investors attempt to box out other bondholders in their respective classes and cut side deals for themselves with management for better bond terms. Common equity holders are also using the threat of insolvency to cram down distressed exchanges and force hair cuts onto bondholders. The latest flare up is Altice France, the management team told investors they would have to participate in "discounted transactions" to help the company slash its debt. Then rumours circulated that secured bondholders were trying to wipe out the unsecured holders as part of a restructuring. A tranche of unsecured bonds traded down from 70 cents to 30 cents.

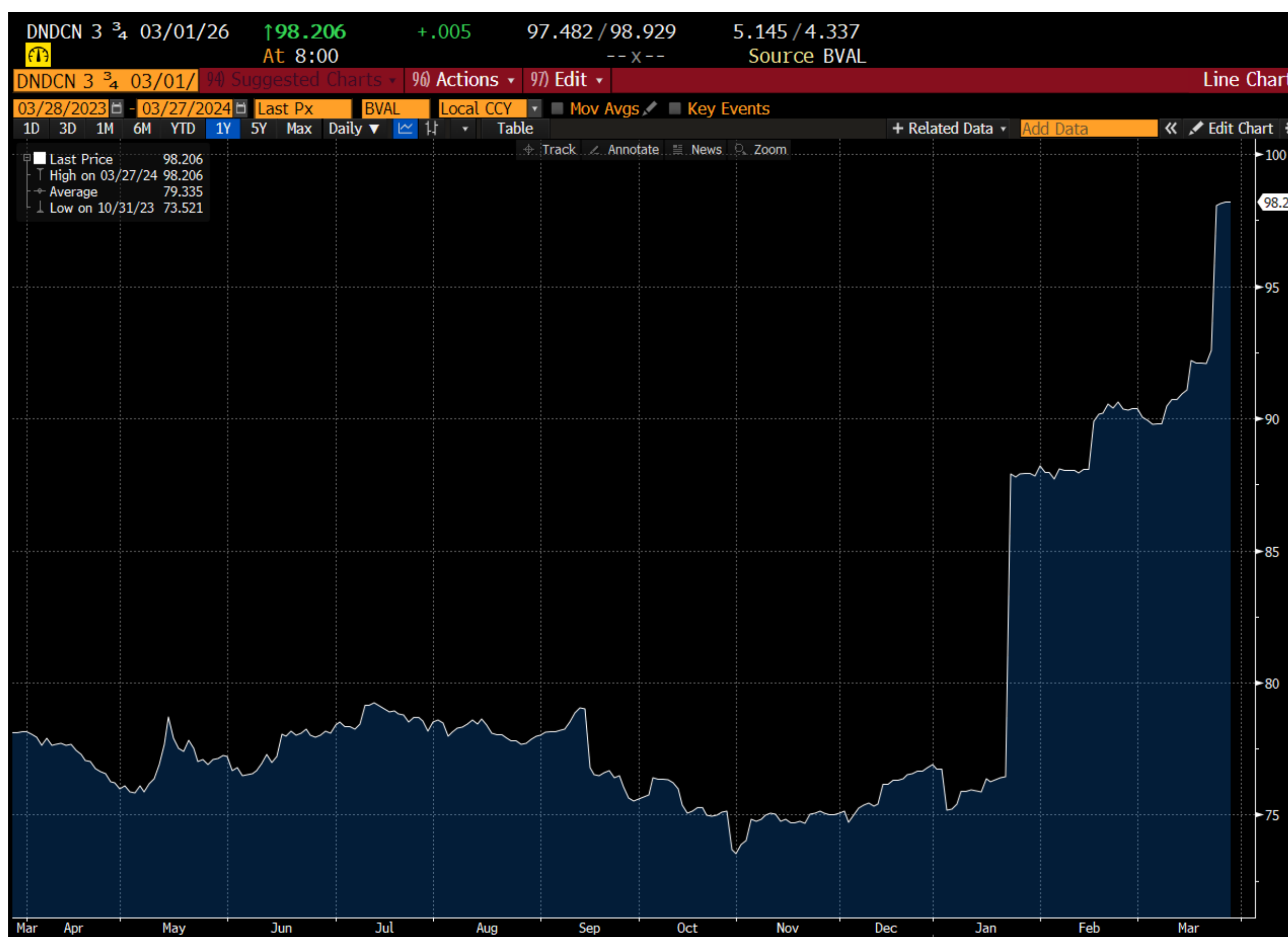
Risk Overlay (-9%)

We continue to short sell selective USD High Yield new issues that have traded above par "on the break" purely on investor demand driven by inflows not fundamentals. We added to our long-dated out of the money put positions on Canadian Banks to hedge out a portion of the tail-risk in a few our preferred share exposures.

Summary

The opportunity to deploy capital remains robust despite macro tightening in corporate credit spreads. Credit markets being wide open has been a catalyst for refinancing debt maturities, M&A, asset sales and other corporate events that typically occur at the tail-end of a bull market. Opportunities are beginning to emerge on the short-side for the first time in awhile, which is very exciting. Pure fund flows and passive indexers have driven certain credits to overvalued territory. USD corporate credit remains rich to CAD credit, so we have shifted some of our exposures out of the US into Canada. In addition, select preferred shares and convertibles look cheap to us relative to straight corporate debt. We continue to outright avoid many sectors including TMT, Retail, CCCs and LBO Debt. Regardless of overall macro conditions, the Fund is small and nimble enough to find and execute on event-driven opportunities while we await better entry points to reallocate to our Core Corporate Carry portfolio.

Appendix – Dye & Durham (DNDCN 3.75% 2026 Unsecured Convertibles)



Date	Event	Price (before)	Price (after)
24-Jul-23	Offer to purchase a portion of the bonds at between 50-65 cents for cash	78.50	78.63
20-Oct-23	Offers to exchange a portion of bonds to new 2028 bonds at a discount to par	75.25	75.00
13-Nov-23	Announces strategic review of non-core assets to accelerate deleveraging	75.00	74.75
07-Dec-23	Revised exchange offer, increases size	75.25	75.50
05-Jan-24	Revised exchange offer, increases size again	75.13	75.50
17-Jan-24	Issues $126mm of common stock with proceeds to reduce debt	76.25	88.00
15-Mar-24	Changes to Board of Directors	91.00	92.00
20-Mar-24	Announces the refinancing of the existing credit facility and 2026 bonds	92.00	98.00
01-Apr-24	Announces proposed $500mm of new secured bonds	97.50	98.50
01-Apr-24	Intends to make an offer by way of a SIB to purchase all the 2026 bonds	97.50	98.50