GMP Investment Management
Maximizing Return, Managing Risk

Canadian ABCP and Credit Market Commentary - March 2013

This commentary is an update Canadian ABCP ("ABCP") and our views on general credit market conditions in Canada and the United States.

Canadian ABCP

For the month of February, the Canadian ABCP Fund LP (the "Fund") returned 0.59%[1] (preliminary, net of fees and expenses). This brings 2013 YTD return to 3.55% (preliminary, net of fees and expenses). Since the inception of the Fund in November 2010, the return has had a return of 46.83% (net of fees and expenses).

We believe that ABCP remains an exceptional risk-adjusted investment for the following reasons:

1. The ABCP strip currently trades at a weighted price of 85.75 compared to a fair value of between 93.20 and 95[2]. This represents a discount to net asset value of 8.5%.

2. ABCP provides a higher return than the High Yield ("HY") index at a far lower risk (see attached analysis in Appendix I).

3. Risk is continually rolling off the structure (with another $2.75 billion having matured in Q4/2012). Since inception, over C$22 billion has matured with no losses to the structure. This leaves C$52 billion of second loss exposure of which $8.1 billion matures in 2013, essentially insured by the same amount of first loss protection as at inception.

4. Based on our analysis, we continue to anticipate that the structure will mature in December 2016 with no losses incurred to the ABCP strip.

Since the beginning of January 2013, we have made some major adjustments to the composition of the Fund's portfolio. Most notably, we reduced our holdings of A-2 and deployed the proceeds into the higher ranking A-1 notes. This move reflected our belief that, on a relative basis, A-1 notes represent better value at only a 4% premium in price to the A-2. Also, A-1s are also poised to benefit from dealer financing opportunities more so than the A-2s. This second point is significant since U.S. dealers are

[1] Canadian ABCP Fund LP represents the benchmark series.

[2] The ABCP strip consists of 53% A-1 notes, 37% A-2 notes, 7% B notes and 3% C notes. Losses accrue to the C notes first and A-1 notes last and accordingly the C notes are the most risky in the structure and the A-1 notes the least risky. As at March 1, 2013, fair value is 93.20 according to Stern Agee and 95 according to the Blackrock report dated February 5, 2013.

now offering term financing opportunities on ABCP. This reflects the dealers' analysis of the reduced risks in the notes, as well as the substantial trading liquidity of the notes.

At the outset, most holders of the restructured notes were Canadian "original holders", who bought the 90 day commercial paper ("CP") at a few basis points higher than bank sponsored ABCP. When the market froze in 2007, the CP was restructured through the Montreal Accord, into a seven year product. Many of the original holders have now sold their paper in the secondary market that has developed over the past several years[3]. In Canada, we are the exception as most of the buyers of the ABCP were U.S. based hedge funds. These are sophisticated credit experts who saw the same opportunity in the notes that we saw in 2008. We estimate that over C$6 billion of the C$10 billion of the ABCP notes now reside in the hands of U.S. hedge funds. These holders will look to leverage (or margin) their holdings and the U.S. dealers are looking to facilitate this process.

As an aside, we find it particularly perplexing that Canadian banks and dealers still choose to ignore the opportunities available in the ABCP notes. Ironically, Canadian dealers refuse to inventory any of the paper, at any price, after selling it to clients on issue at 100 cents on the dollar! They certainly won't provide margin on the paper.

Our view on the structure is that the best opportunities exist in the A-1 and C notes and the weighting in the Fund reflects this view. We are carrying a below market weight of A-2 and B's but will adjust this weight as market opportunities present. Our cash weight remains low at below 5%. We note that over the life of the Fund, our cash weight has been as high as 25%, a position that was rewarded in late 2011 when credit markets, in general, experienced major corrections and we were able to re-invest in ABCP notes at reduced prices. Also, we remain active traders in the secondary market, a position that allows us to see most of the activity that occurs on both sides of the border.

The opportunities in the ABCP tracking notes have essentially disappeared. When these trackers are paid down (MAV II Class-13 is being paid down in April 2013) we will redeploy the proceeds in the ABCP strip. Trackers have provided the Fund with tremendous returns over the last few years. In some cases, we actually purchased tracking notes at less than one cent on the dollar and we were paid out at par. Unfortunately, the investment community and the remaining original holders are now wise to the past opportunities, and the pricing of most trackers now reflect fair value.

General Credit Market Conditions

The credit team at GMPIM consists of three professionals with a cumulative experience of 57 years of credit investing. It is our view that certain asset classes within the credit universe currently exhibit over-bought qualities last experienced in 2007. We are currently cautious on our outlook for HY bonds as we believe (at an all-time low of yield of 5.9%, on an absolute basis) the HY universe is priced close to perfection and that total return potential is limited to coupon return. While we do not expect an imminent correction in HY prices as both market technicals and fundamentals (solid balance sheets)

[3] In the last four years, funds managed by GMPIM have participated in over C$5.5 billion of secondary market ABCP trades. This represents approximately C$3 billion of purchases and C$2.5 billion of sales.

remain supportive, we feel that the marginal dollar is better invested in either subordinate parts of the capital structure such as equities or in selected senior floating rate instruments such as corporate loans and ABCP.

Although the index yield of 5.9%[4] is at all time lows, at +450bps on a spread basis, it remains almost 200bps wide of its historical tight. This is a reflection of a generational low in Treasury yields and the fact that the average HY bond now trades at a premium to par. Remember that HY bonds are a contract that matures at par (or otherwise rolls over at less than par thereby breaking the contract or defaulting). Given the current favorable capital market condition for issuers (low all-in coupon and loose covenant terms) we anticipate continued refinancing of callable bonds in the new issue market. While this contractual obligation provides investors with seniority versus equity holders, in the current pricing environment it also exposes them to asymmetrical risks. Coupons on bonds are NOT increased if the financial condition of a company improves. Those gains accrue to the equity holders. While we are bullish on the outlook for corporate health, we feel that better risk adjusted returns are available in equities in general, and in ABCP in particular.

[4] BOA Merrill Lynch Universe index as at February 28, 2013.

Appendix I

MAV versus High Yield -- March 4, 2013				
	MAV		*HY19*	
Initially 708 companies with 35 credit events. 673 non defaults of which 102 have rolled off leaving current exposure at 571. MAV structure has no imbedded losses as subordination in the LSS swaps absorbed the credit losses.	571	Companies in Basket	100	100 companies each represent 1% of HY19 index. Currently no defaults.
	41	Companies common to both structures*	41	
	179	Average current 5yr spread	430	
MAV structure experiences first loss with defaults of all companies currently trading at 490 bps and wider (impacts subordinate tranches first).	41	Companies with current 5yr spread >490bps	30	
	7%	Proportion of Companies with current 5yr spread >490bps	30%	
	12	Companies common to both structures with current 5yr spread >490bps **	12	
	0%	Loss to Basket with default of ALL companies with current 5yr spread >490bps	18.0%	Assumes 40% recovery rate for HY19 names
A-1s experience first loss with defaults of ALL companies currently trading at 120 bps and wider.	307	Companies with current 5yr spread >120bps	96	HY19 companies whose current 5yr spread <120bps: Bausch & Lomb, CMS Energy, Sunoco Inc, Weyerhaeuser. Note that Weyerhaeuser is common to both structures.
	26	Companies common to both structures with current 5yr spread >120bps	26	
A-1 @ 88.75 = 4.17% IRR to 12/20/2016 maturity. Substantial de-risking occurs in 2014 and 2015 as swaps mature in the MAV structure. This is not reflected in an IRR calculation.	0%	Loss to A-1s with default of ALL companies with current 5yr spread >120bps	n/a	
	n/a	Loss to HY19 with default of ALL companies with current 5yr spread >120bps	58%	Assumes 40% recovery rate for HY19 names
Trading levels: A-1 @ 88.75, A-2 @ 84.25, B @ 81, C @ 72 equate to weighted strip price of C$85.75	85.75	Current trading level of Basket	102.75	
	93.2	Net Asset Value (NAV) of Basket (03/04/2013)	102.5	
Three year range is a 17% discount to a 4% premium.	8.7%	Discount to NAV	-0.24%	HY19 currently trades at a small premium to NAV. HY Index range is typically +2% to -2%.
Assumes 12/20/2016 Maturity and no losses. Substantial de-risking occurs in 2014 and 2015 as swaps mature in the MAV structure. This is not reflected in an IRR calculation.	5.30%	Fixed IRR to Maturity	5.20%	Assumes floating rate spread swapped to five year fixed. All CDS obligations mature on 12/20/2017 and there is no de-risking due to swaps maturing prior to maturity of the structure
	√	MAV is More Diversified	X	
	√√	MAV is Lower Risk	X	
	√√√	MAV is Higher Yield	X	
Conclusion: There was nothing wrong with the original MAV LSS structure, just the original pricing. MAV is very cheap currently.				

8 companies common to both structures that have rolled off as MAV structure de-risked.

Bombardier Inc., Cooper Tire & Rubber Co., First Data Corp., Hovnanian Enterprises, MGM Resorts International, Neiman Marcus Group, Royal Carribean Cruises Inc., Sunoco Inc., Texas Competitive Electric

*** 41 Companies common to both structures:**

1) Ally Financial 2) Avis/Budget 3) Bombardier 4) Brunswick Corp. 5) Chesapeake Energy 6) Clear Channel Comm 7) Cooper Tire & Rubber 8) Dean Foods 9) Deluxe Corp. 10) First Data 11) Frontier Comm 12) Hertz 13) Hovnanian Ent. 14) Istar Fin. 15) KB Home 16) Lennar 17) Liberty Media 18) Louisiana-Pacific 19) Limited Brands 20) MBIA Insurance 21) McClatchy 22) MGIC Investment 23) MGM Resorts Intl 24) Nova Chemicals 25) Neiman Marcus 26) New York Times 27) Olin 28) Pulte Home 29) Radian Group 30) Radioshack 31) RR Donnelley & Sons 32) Royal Carribean Cruises 33) Sabre Holdings 34) Sears Roebuck Accept 35) Sprint Nextel 36) Standard Pacific 37) Sunoco 38) Supervalu 39) Texas Comp Electric 40) Weyerhaeuser 41) Windstream

**** 12 Companies common to both structures with current 5yr spread >490bps:**

Clear Channel Commun. Inc., Hovnanian Enterprises, MBIA Insurance Corp, McClatchy Co., MGIC Investment Corp., Radian Group Inc, Radioshack Corp, RR Donnelley & Sons, Sabre Holdings Corp., Sears Roebuck Acceptance Corp., Supervalu Inc., Texas Competitive Electric