

JUNE 2013

For the month of June, the Canadian ABCP Fund LP (the "Fund") returned -0.45% (preliminary, net of fees and expenses). This brings 2013 YTD return to 6.31% (net of fees and expenses). Since the inception of the Fund in November 2010, the return is 51.06% (net of fees and expenses). The large selloff in credit instruments in June affected the performance of the Fund as the widening of credit spreads reduced the mark to market value of the other assets. Nevertheless, ABCP is still trading at a substantial discount to the value of the underlying assets. We continue to believe that ABCP remains an exceptional risk-adjusted investment for the following reasons:

1. The ABCP strip¹ currently trades at a weighted price of 88.5 compared to a fair value of 94. This represents a discount to net asset value of 6.2%.
2. Risk is continually rolling off the structure (with another C\$13 billion having matured in 2012 and Year to date). Since inception, C\$20 billion has matured with no losses to the structure. This leaves C\$53 billion of second loss exposure, essentially insured by the same amount of first loss protection as at inception. Another C\$8 billion (or 15%) is scheduled to mature in 2013.
3. Based on our analysis, we anticipate that the structure will mature in December 2016 with no losses incurred to the ABCP strip. Moreover, an "unwind" process has been approved that will allow for early redemptions with the first auction likely to take place this summer. Accordingly, these auctions will create continuous liquidity events that should provide further stability to secondary market prices.

At the outset, most holders of the restructured notes were Canadian "original holders", who bought the 90 day commercial paper ("CP") at a few bps higher than bank sponsored ABCP. When the market froze in 2007 and the CP was restructured into a seven year product, many of the original holders sold their paper in the secondary market that has developed over the past few years². With the exception of ourselves, most of the buyers of the ABCP have been 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. As a result of the unwind proposal, as well as the large amount of paper now finding a home south of the border, U.S. dealers are 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.

Our current view on the structure is that huge optionality exists in the MAV II Class C notes and the weighting in the Fund reflects this view (7% of the Fund versus a market weight of 3%). We anticipate that the confirmation of the auction process will add upside value to the C's and we will continue to see better bids enter the market. We are carrying a below market weight in B's but will adjust this weight as opportunities present.



1. 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. Accordingly, the C notes are the most risky in the structure and the A-1 notes the least risky.

2. In the last five years, funds managed by Fiera Quantum, 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.

Our cash weight remains low at below 5%; however, we did enter the month of June with a cash weight of 11.5%. As a result, we were in a position to purchase some paper at attractive levels thereby benefitting from the volatility that was experienced in all credit markets globally in June. 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. At that time, we were able to re-invest in ABCP notes at reduced prices like we did in June 2013.

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. In June, trading in the restructured notes was orderly (in distinct contrast to some other credit markets which experienced major dislocations and fractured trading behaviour). While the strip did trade as low as 86, there was good demand at the reduced levels. Prices did recover into the end of the month as credit conditions improved and got a final pop when news of the progress of the unwind was announced late in the day on Friday, June 28.

For more information on the unwind please refer to:

<http://www.newswire.ca/en/story/1192459/update-on-proposed-amended-structure-for-abcp-mav2-notes-to-allow-for-redemptions>



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