

# HGC

INVESTMENT MANAGEMENT INC.

## The HGC Credit Opportunities Fund

Event Driven Credit

May 2019

# HGC Investment Management

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## About HGC Investment Management

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- HGC Investment Management Inc. ("HGC") is an employee-owned, alternative asset management firm based in Toronto. The firm specializes in low volatility, highly liquid, event-driven mandates that produce uncorrelated returns. HGC currently manages the HGC Arbitrage Fund and the HGC Credit Opportunities Fund LP.
- HGC is registered with the Ontario Securities Commission as a portfolio manager, exempt market dealer and investment manager.

## About HGC Credit Opportunities Fund

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- The HGC Credit Opportunities Fund focuses on Event Driven Credit.
- Target return of 8-12% net of fees over a period of time.
- The Fund seeks to provide a medium volatility return profile.
  - Low beta portfolio given the Event Driven nature.
  - Convertible arbitrage strategy insulated against major corrections as the strategy tends to be long volatility particularly to the short side.
- Low Correlation to traditional equity and debt markets.
- The Fund has a 4 year track record with an annualized return of 10.38%

# Strategies:

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## Event Driven:

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### Merger Arbitrage:

- Merger Arbitrage takes a long position in a security that is involved in a definitive merger agreement. Can potentially provide a better risk reward situation in comparison to equity in the same transaction.

### Corporate Actions:

- Situations where companies are undergoing Corporate actions including:
  - Tenders
  - Calls
  - Conversions
  - Change of Control
- The fund attempts to buy these bonds at a discount to the takeout price. These trades often feature very low downside creating attractive risk-reward opportunity.

## Value Enhancing:

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### Short Term Maturities:

- An investment in a bond that matures in less than 2 year where the issuer has the liquidity to satisfy that maturity and the intention to manage the balance sheet appropriately in the interim such that it can satisfy that maturity.

### Reorganization

- A bond that trades below par and has stronger fundamentals than the price of the bond reflected in the market place. Typically these companies are in or about to undergo a reorganization process that will surface value.

### Convertible Arbitrage:

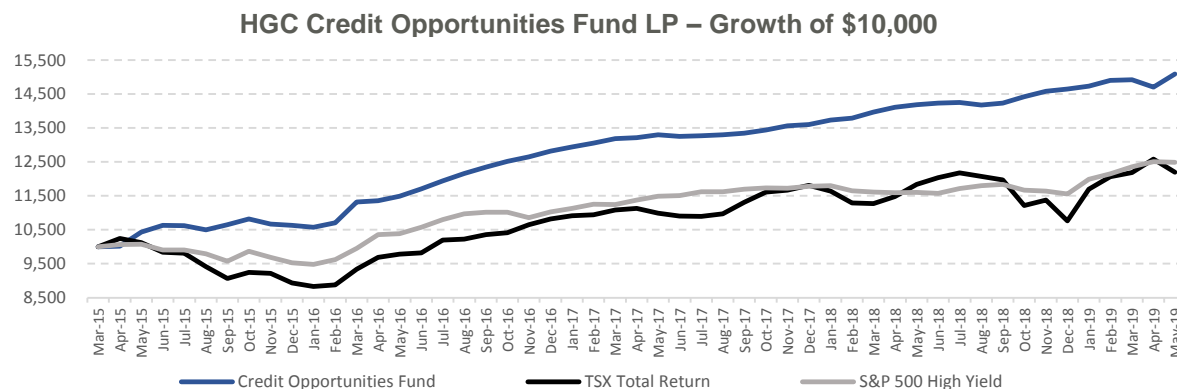
- Convertible debt arbitrage takes a long position in convertible debentures while simultaneously taking a short position in the company's common stock at the appropriate delta.

### New Issue Participation

- Relationship driven access to the new issue market.

# Performance

- 4 Year Track Record
- Annualized Return: 9.89%



**Inception Date: April, 2015 – Net of all fees**

	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD *	INCEP**
HGC Credit	2019	0.62%	1.13%	0.10%	-1.45%	2.68%								<b>3.06%</b>	<b>50.90%</b>
HGC Credit	2018	0.97%	0.42%	1.33%	0.97%	0.59%	0.29%	0.15%	-0.55%	0.42%	1.32%	1.12%	0.43%	<b>7.70%</b>	
HGC Credit	2017	0.93%	0.86%	1.00%	0.23%	0.62%	-0.32%	0.11%	0.21%	0.38%	0.69%	0.94%	0.24%	<b>6.06%</b>	
HGC Credit	2016	-0.53%	1.25%	5.70%	0.34%	1.16%	1.93%	1.95%	1.87%	1.52%	1.36%	1.06%	1.37%	<b>20.58%</b>	
HGC Credit	2015	-	-	-	0.14%	4.21%	1.87%	-0.10%	-1.14%	1.45%	1.60%	-1.40%	-0.37%	<b>6.30%</b>	
SP500 HY--	2019	3.79%	1.29%	1.72%	1.22%	-0.13%								<b>8.09%</b>	<b>24.86%</b>
TSX ***	2019	8.74%	3.15%	1.01%	3.22%	-3.06%								<b>13.37%</b>	<b>21.95%</b>

\* Performance returns are of the lead series of Class S units

+ Performance returns are of the lead series of Class B units after July 2016.

\*\* Inception April 2015

\*\*\* S&P/TSX Comp Total Return Index - The TSX Total Return Index is a widely-known equity index of Canadian large-cap companies. Investing in US and Canadian equities long and short is the primary strategy for HGC as part of the credit strategy but HGC does not invest in all or necessarily any of the securities that compose the market indexes. Reference to the indexes does not imply that HGC will achieve returns similar to the indexes.

--SP500HY - S&P 500 High Yield Corporate Bond Index Total Return, a subindex of the S&P 500 Bond Index, seeks to measure the performance of U.S. corporate debt issued by constituents in the S&P 500 with a high-yield rating. Reference to the indexes does not imply that HGC will achieve returns similar to the indexes.

++ Please see disclaimer at end of presentation for further information on performance.

# Why HGC Outperforms

HGC can leverage its core competency of analysing near term corporate actions and trading market neutral spreads.

## Leverage Existing Investment Process:

- Leverage existing dealer relationships
- Direct synergies in tracking corporate events & analysis

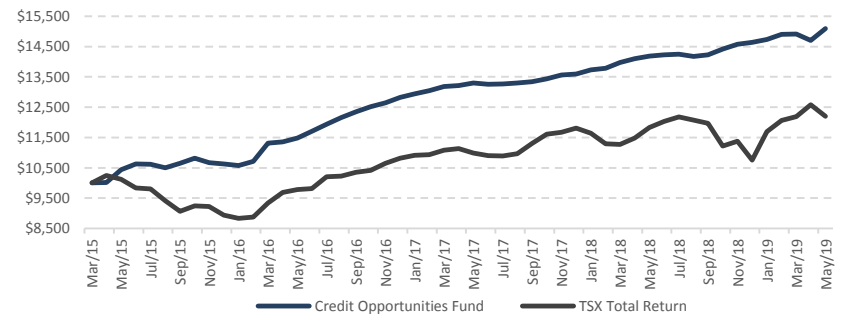
## Leverage Risk Management Process:

- HGC has a developed proven risk management process
- Portfolio allocated by potential for volatility

## Tax Efficient:

- Historically returns have been a combination of capital gains and income
- We are after tax investors

## Low Correlation to Equity:



## Low Interest Rate Risk:

- Investment have a low duration which translates to a low sensitivity to interest rates
- Increasing interest rates can be beneficial for event driven spreads as risk free cost of capital increases

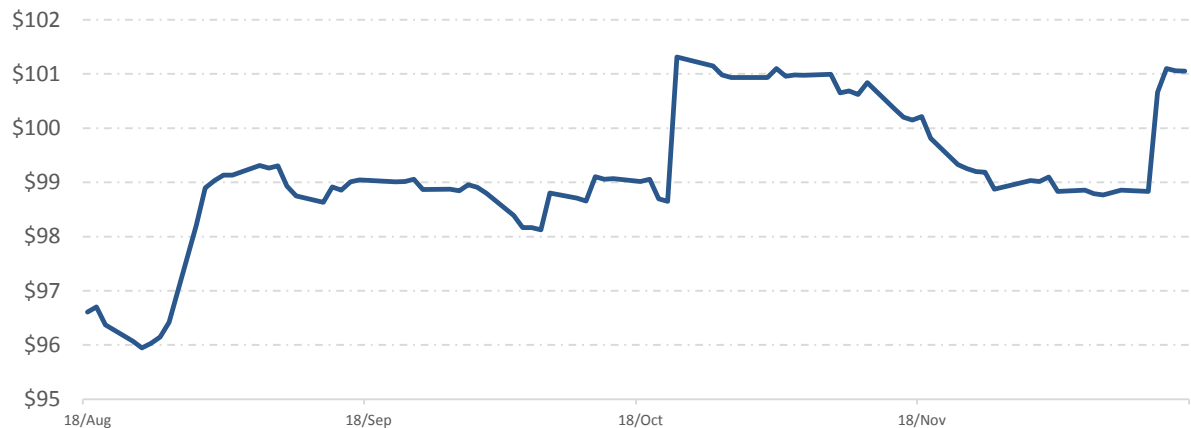
## Low Potential Downside:

- Downside monitoring is the focus of our risk management
- We allocate capital looking at risk on downside versus potential for upside

# Case Study: Trinidad Drilling Ltd.

## Trinidad Drilling Ltd. Senior Unsecured Notes: TDGCN 6 5/8 02/15/25 Corp

- Change of Control: 101
- Break Price: 92
- Note price: 99



- On August 30th Ensign mailed its formal offer to acquire Trinidad for \$1.68 per share in cash by way of a hostile takeover.
- Trinidad's board of directors unanimously determined that Ensign's offer was not in the best interest of shareholders, thereby rejecting the offer and simultaneously initiating a formal process to seek alternative proposals. On October 5th Precision Drilling (PD) emerged as a white knight for Trinidad as the two companies announced a friendly deal whereby Precision would acquire Trinidad in an all-stock transaction. In spite of the friendly transaction being announced, Ensign chose not to withdraw the \$1.68 cash offer.
- The 101 change of control that would be triggered no matter which bidder ultimately won out. As it turned out, the Ensign bid became the superior offer as Precision's stock price decreased over 25% from the initial announcement making its offer worth ~\$1.47 on the November 27th Ensign tender deadline.
- Trinidad shareholders chose to tender their shares into the higher Ensign offer and ESI was able to gain majority control of the company, triggering the 101 change of control and allowing the fund to capture an attractive return.

# Case Study: Aecon Group Inc.

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## Aecon Group Inc. Debentures: ARECN 5 ½ 12/31/18 Corp

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- Conversion Ratio: 50.7357
- Conversion Price: 19.71
- Deal Price: \$20.37
- Debenture Take-out Price: 103.35
- Break Price: 100
- Debenture price: 100.75
- Annualized Return: 10.5%



- CCC International Holding Limited (CCCI) announced a definitive agreement to acquire Aecon Group Inc. for \$20.37 per share.
- The Equity traded at greater than a 40% annualized return due to Investment Canada approval concerns. The Equity had potential downside of 25% if the deal were to break.
- The Debentures traded at a ~10% annualized return if the deal were to be completed and a 3.7% Yield-to-Maturity if the deal were to not go through.

# Fund Details

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<b>Inception Date:</b>	April 2015
<b>Minimum Subscription:</b>	\$100,000
<b>Base Currency:</b>	CAD
<b>Management Fee:</b>	1.5%
<b>Profit Allocation:</b>	15%
<b>High Watermark:</b>	Perpetual
<b>Subscriptions:</b>	Monthly
<b>Redemptions:</b>	30 Day Notice
<b>Prime Broker:</b>	CIBC/TD
<b>Auditor:</b>	KPMG LLP
<b>Fund Administrator:</b>	Apex
<b>Legal Advisors:</b>	BLG

## OM Details

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- 15% Concentration limit per security
- 200% Maximum Debt/Equity
- Perpetual High Water Mark
- 30 days redemption notice period



# Team

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## David Heden, CEO – Portfolio Manager

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- Prior to founding HGC, Dave was a Managing Partner at K2 Investment Management Inc, a Toronto based hedge fund. At K2 Dave developed significant expertise in merger arbitrage, participating in thousands of merger arb and spin-off situations, with a primary focus on the energy sector. This energy expertise led Dave to build a complete energy investment group within K2, opening offices in Calgary, and expanding energy investments to include mezz lending, distressed debt, and activist situations. Dave has served on several private and public company boards.

## Brett Lindros – Executive Vice President

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- In the role of Executive Vice President, Brett manages the business aspects of HGC including internal finance and service providers such as fund administration, legal and audit. Brett brings 20 years of investing experience in Canadian Hedge Funds and 9 years of experience in Operations and Marketing.

## Sean Kallir, CIO

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- Sean began his investment career in 2011 as a merger arbitrage and special situations Analyst at a Toronto-based hedge fund. With over 8 years of experience Sean has been involved in hundreds of SPAC and merger arb positions, and has become well versed in nuances of special situations. Sean holds an Honors BA in Economics from the University of Western Ontario.

## Chris Callahan, CFA – Associate Portfolio Manager

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- Chris began his investment career in 2015 as a merger arbitrage Analyst at HGC. Prior to joining HGC, Chris worked as an Institutional Equity Sales Associate at a Canadian brokerage. Chris received a Bachelor of Arts (Honours) in Applied Economics from Queen's University and is a CFA Charterholder.

# Team

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## Donald K. Charter – Chairman of the Board

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- Don is an experienced business executive having been successful in a number of executive leadership roles in a variety of businesses. Don is currently an active corporate director serving on four public company boards: IAMGold, Lundin Mining, Dundee REIT and Adriana.
- He began his career in Toronto where he built a successful commercial and M&A business law practice, becoming a partner in a national law firm. Mr. Charter joined the Dundee group of companies in 1996 as an Executive Vice President with a number of capital markets related responsibilities. He became the founding Chairman and CEO of the Dundee Securities group of companies in 1998 while remaining EVP of Dundee Corp and Dundee Wealth Management, and oversaw its growth from a start up to a major independent full service financial services company with \$28 billion of assets under administration, a national advisor group with over 2,500 financial advisors, a full intuitional business, an insurance MGA, a mortgage broker and a Canadian chartered bank.

## Stuart Grant – Chief Compliance Officer

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- Prior to joining HGC, Stuart was the Canadian Chief Compliance Officer of an international electronic broker dealer. Previous to that, he worked in risk and compliance for two Canadian prime brokers. He has over 10 year of finance experience in both Canada and the UK. Stuart received a Bachelor of Business Administration from Belmont University and is currently working towards a Master of Science in Finance from Boston University.

# Contact

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# Disclaimer

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