



NorthStream Credit Strategies Fund LP

Monthly Commentary: September 2016

The NorthStream Credit Strategies Fund LP generated a return of 2.29% for the month of September, driven by capital appreciation in several bonds, including our positions in the capital structure of chemicals producer, Canexus, following an unsolicited takeover bid from Chemtrade on September 6th.

In October 2015, Canexus entered into a merger agreement with Superior Plus which would have combined two large producers of sodium chlorate. In May 2016, the debt and equity of Canexus traded at a large discount to the takeover price due to the high perceived risk of the transaction not receiving approval from the Federal Trade Commission ("FTC"). Management of Superior Plus stated at their annual general meeting in April that they could address the FTC's concerns regarding excessive concentration by disposing of some smaller sodium chlorate facilities and still have an accretive transaction. On June 30th, Superior Plus terminated the acquisition after failing to obtain FTC approval, causing the debt and equity of Canexus to materially depreciate.

Our investment thesis was that Canexus was over-leveraged and could not remain an independent entity with the company's organic rate of free cash flow generation. The sale process undertaken in 2015 provided financial and strategic players with significant information to quickly revisit the file after Superior Plus terminated the deal. We also believed that the market was not paying a takeover premium for Canexus' debt prior to the transaction being cancelled.

In June, we purchased the Canexus 6% debentures maturing 2021 at a price of \$95 or a yield-to-maturity of 7.62%. After Superior Plus terminated the deal, we also purchased Canexus 5.75% debentures maturing in 2018 at a price of \$92.4 or a yield-to-maturity of 9.27%. After Chemtrade's unsolicited offer on September 6th, we participated in Canexus' new offering of \$110 million principal amount of 7.875% notes maturing in 2023 issued at \$100, which was used to retire a portion of its credit facility. After Chemtrade's improved offer to purchase shares of Canexus, the outstanding debt of Canexus has appreciated to \$97.5 on the 2021's, \$99.5 on the 2018's and \$105.75 on the 2023's. Chemtrade's 5% debentures maturing in 2023 currently trade at a yield-to-maturity of 4.85%, implying some further upside potential in the Canexus bonds.

Market View and Portfolio Composition

The market value of global negative-yielding debt fell to US\$10.7 trillion last week from the high of US\$12.2 trillion in June on concerns of less accommodative global central bank policy. Concurrently, US inflation expectations have been rising from their low of approximately 2% in early July to 2.5%. The Fed Funds futures market is showing an 86% probability of a rate hike in December 2016. The futures market in Canada is indicating a 0% probability of a rate hike in March 2017 and a 10.3% probability of a rate cut.

We continue to maintain our defensive positioning with exposure to higher-rated names and shorter maturities, with a portfolio duration of 3.6 years compared to 4.27 years for the high yield index¹. We are also maintaining a high Canadian dollar exposure in anticipation of a US rate hike in December 2016 and to mitigate the effect of a brief "taper tantrum" if it arises. Our Canadian dollar exposure was 65% at the end of September and has increased in October to benefit from the small chance of a rate cut in 2017. Our bond holdings by rating for September were 42% BB, 56% B, and 2% CCC.

The NorthStream Credit Strategies Fund LP generated a return of 10.34% for the five months since inception.

NorthStream Credit Strategies Fund LP										
Year	January	February	March	April	May ²	June	July	August	September	YTD
2016	-	-	-	-	0.49%	0.81%	3.40%	2.98%	2.29%	10.34%

¹ Bank of America Merrill Lynch US High Yield Master II Index (H0A0)

² NorthStream Credit Strategies Fund LP Date of Inception: May 2nd, 2016

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