NorthStream Credit Strategies Fund LP

Monthly Commentary: November 2016

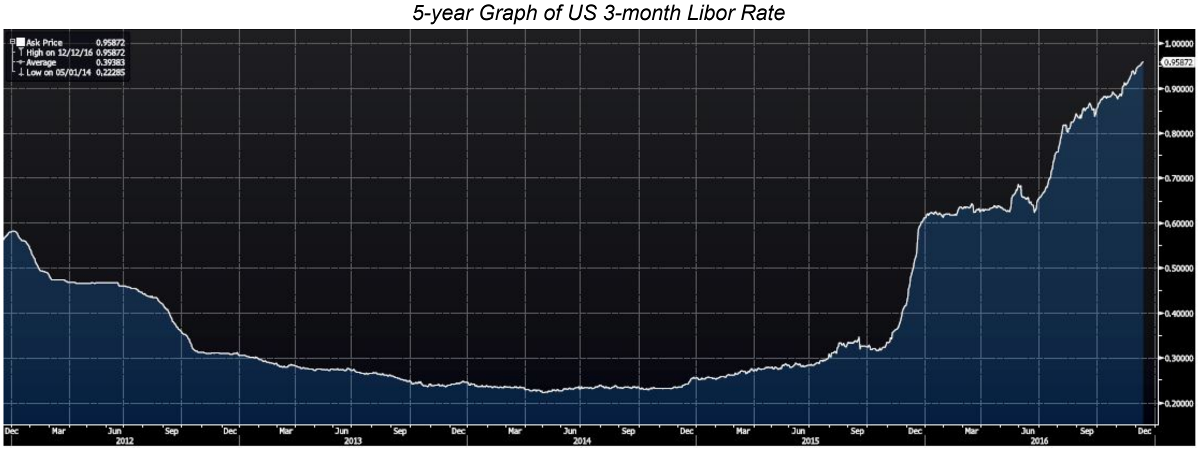
The NorthStream Credit Strategies Fund LP generated a return of 0.75% for the month of November, outperforming the treasury[1], corporate[2] and high yield bond[3] indexes due to our shorter portfolio duration and high Canadian dollar bond weighting.

The slump in treasuries accelerated in November, with 5-year US treasuries widening 54 basis points and 10-year US treasuries widening 56 basis points. Although the probability of a rate hike in Canada is low, 5- and 10-year Canada government bonds have widened in sympathy, increasing 32 basis points and 39 basis point respectively in November.

Given the substantial and rapid change in interest rates, it is difficult to determine how much of the move is due to fundamental changes in inflation expectations versus other technical factors that impact funding rates. The often-cited cause of the rapid increase in US interest rates is the expected increase in infrastructure spending, anticipated fiscal stimulus and strong employment growth following the election of Donald Trump. However, we have observed three factors that have been impacting US dollar funding costs over the past six months. Because of these factors influencing US dollar funding and hedging costs we intentionally chose to maintain a high percentage of Canadian dollar bond exposure.

The Eurodollar market is being impacted by the adoption of Basel III requirements, causing funding rates to be more expensive and less liquid than they used to be. Secondly, the US 3-month Libor rate had been very stable over the past few years, hovering close to the fed funds rate, and experienced a shift in December 2015 to approximately 60 basis points. Post-Brexit, the 3 month Libor rate has been drifting higher, increasing to approximately 96 basis points in December 2016.

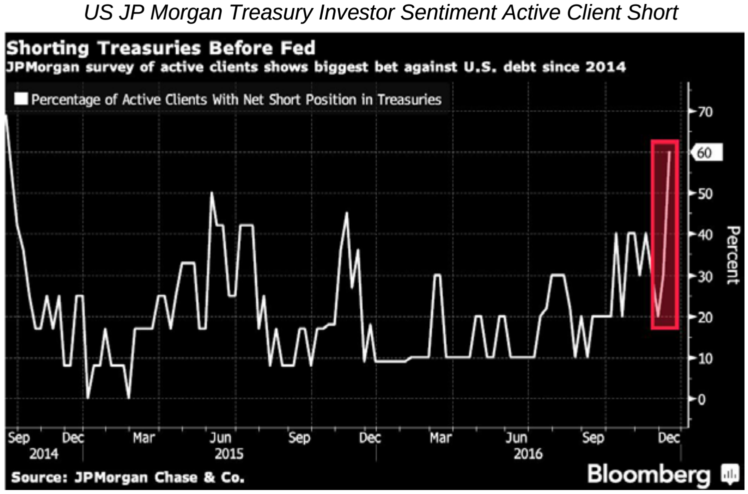
5-year Graph of US 3-month Libor Rate



Source: Bloomberg Professional Service

The third factor is the elevated borrow cost for US treasuries. Recently the short interest in US treasuries has spiked leading up to the December 14th FOMC meeting.

US JP Morgan Treasury Investor Sentiment Active Client Short



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The borrow cost[4] to short US treasuries has increased significantly over the past eight months. We have been monitoring US treasury borrowing costs over that period to understand where there are potential market dislocations. Below is a table showing the approximate annualized cost to borrow 2-year, 5-year and 10-year US treasuries since Brexit:

Borrow Rates for US Treasury Bonds			
	2-year US Treasury	5-year US Treasury	10-year US Treasury
July 2016	225 bps	125 bps	50 bps
August 2016	112 bps	112 bps	100 bps
December 2016	87 bps	100 bps	400 bps

Over the past six months the escalation in borrow costs for US treasuries has moved from the front end to the back end of the curve. Additionally the elevated cost of hedging US interest rate risk has reduced the potential return from hedged positions.

Over that same time frame the borrow cost for Canadian government bonds has been steady at an annualized rate of approximately 40 basis points along the interest rate curve. Comparatively, the Canadian market has not experienced the fluctuations in borrow cost for government bonds and funding costs (3-month Bankers' Acceptances) have remained very stable leading us to conclude Canada was a comparatively safer environment.

As we observed these dislocations in the US treasury and US funding markets over the past six months, we have increased the Canadian dollar denominated bond weighting in the portfolio to 85% at the end of November to mitigate the impact of a potential "Taper Tantrum".

Our decision to have a large weighting in Canadian dollar denominated bonds reduced the risk associated with correctly handicapping the frequency of rate increases in the US market and betting on how short squeezes on US treasuries will impact the interest rate curve.

We continue to maintain our defensive positioning with exposure to higher-rated names and shorter maturities. Our bond holdings by rating for November were 43% BB, 49% B, and 8% CCC. The NorthStream Credit Strategies Fund LP generated a return of 13.52% for the seven months since inception.

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Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	**YTD**
2016	-	-	-	-	0.49%	0.81%	3.40%	2.98%	2.29%	2.12%	0.75%	**13.52%**

1 S&P U.S. Treasury Bond 7-10 Year Index (MTD Return November 30: -4.21%)
2 Bank of America Merrill Lynch Corporate Bond Index C0A0 (MTD Return November 30: -2.68%)
3 iShares iBoxx $ High Yield Corporate Bond ETF – HYG (MTD Return November 30: -0.43%)
4 A borrow fee is charged for each short position held in an account. The fee is calculated by applying a borrow rate to the market value of the position for the duration it remains open. Short selling is the practice of selling securities that are not currently owned and subsequently repurchasing them at a later date.