



NorthStream Credit Strategies Fund LP

Monthly Commentary: February 2018

The NorthStream Credit Strategies Fund LP generated a return of 0.01% for the month of February as US rates continued to rise and stock markets experienced turbulence. The high yield market was down -0.97% for the month compared to -2.07% for the US investment grade bond index.^{1,2} The Fund generated 98 basis points of outperformance in February relative to the high yield index due to our shorter duration (3.17 years), a 21% weighting in yield-to-call bond positions and realization on event driven opportunities including a Dutch auction by Sherritt International to repurchase debt, where we tendered a portion of our position in the 8% notes maturing 2021.

In our December commentary we highlighted that over 1/3 of the Fund's investment return for 2017 was from capital gains. As we are all aware – it's not just how much you make, it's all about what you get to keep. Now that the 2017 T5013 tax slips are available we can confirm that we exceeded this objective. In the table below, we highlight that for a subscription starting January 1, 2017 the percentage of the investment return from net interest income was 50%, 28% from realized capital gains and the remaining 22% from unrealized capital gains. For 2017, the Class X units had 64% of the investment return subject to taxable income.

2017 ALLOCATION OF INVESTMENT RETURN ³			
Account Value			Annual Return %
	\$ Amt		
January 1st, 2017	\$ 250,000.00		
December 31st, 2017	\$ 276,128.67		
Change in Value	\$ 26,128.67		10.46%
Taxable Income		Allocation of Return	
	\$ Amt	Gross %	Net %
Net Interest Income	\$ 13,051.09	50%	50%
Gross Capital Gain (100%)	\$ 7,318.03	28%	-
Net Capital Gain (50% taxable portion)	\$ 3,659.02	0%	14%
% of Return Subject to Income Tax		78%	64%

Gross Unrealized Capital Gain	\$ 5,759.55	22%	
Net Unrealized Capital Gain	\$ 2,879.77		11%

In the table below we have calculated the interest equivalent return by multiplying the realized and unrealized capital gains by 2 to show the 2017 interest-equivalent return. If all of the Fund's investment return had been generated from interest income, the pre-tax interest-equivalent return would be 15.68% for 2017. The Pre-Tax Equivalent Return of 15.68% allows investors to compare NorthStream's returns with other investments that generate the investment return entirely from income, on an "apples-to-apples" basis.

2017 INTEREST EQUIVALENT RETURN		
	\$ Amt	%
Gross Realized Capital Gain	\$ 7,318.03	28%
Unrealized Capital Gain	\$ 5,759.55	22%
Total Capital Gains (Realized & Unrealized) [A]	\$ 13,077.58	50%
Interest Equivalent Amount [A] x 2	\$ 26,155.16	100%
Pre-Tax Interest Equivalent Return		Annual Return %
	\$ Amt	
Net Interest Income	\$ 13,051.09	
Interest Only Equivalent (Capital Gains)	\$ 26,155.16	
Pre-Tax Equivalent Return	\$ 39,206.25	15.68%



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In 2016 the Fund had a very high portion of the 16.80% investment return that was from capital gains. The percentage generated from income was 23%, 11% was from realized capital gains, and the remaining 76% being from unrealized capital gains, resulting in only 29% of the investment return being subject to income tax. The favourable tax treatment for capital gains provides a more attractive after-tax return relative to fixed income products that generate only interest income. Please contact us if you are interested in reviewing our tax calculations for a given series of Class X units.

Over the 22 months since inception, the Fund has generated positive returns in a rising interest rate environment and preserved capital during periods of equity volatility demonstrating the low correlation to rates and equities as shown in the table below. Additionally, the Fund has generated investment returns that are competitive with the equity market, but with the risk profile of a fixed income product.

Please refer to our performance and risk metrics below.

NorthStream Credit Strategies Fund LP - Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	1.32%	0.01%	-	-	-	-	-	-	-	-	-	-	1.33%
2017	2.69%	0.66%	-0.89%	0.64%	0.63%	0.02%	0.31%	1.30%	1.03%	1.40%	0.66%	1.58%	10.46%
2016	-	-	-	-	0.49%	0.81%	3.40%	2.98%	2.29%	2.12%	0.75%	2.88%	16.80%

Return Since Inception: 30.72%

The NorthStream Credit Strategies Fund LP ("the Fund") launched on May 2nd, 2016. The monthly returns above are shown net of all fees and expenses and are based on the Fund's Class X Lead Series NAV. Monthly NAV and returns are calculated by SGGG Fund Services. Past performance is not indicative of future results. Performance, risk metrics, and correlations are as of February, 28th, 2018.

Performance & Risk Metrics

Return Since Inception	30.72%
YTD	1.33%
1-YR Return	8.28%
Annualized Since Inception	15.73%
% of Positive Months	95.45%
Maximum Drawdown	-0.89%
Annualized Standard Deviation	3.81%
Sharpe Ratio ⁴	3.71

Correlation

Index	XGB ⁵	TSX	S&P500
Correlation	-2.15%	42.11%	14.01%
Upside Capture	96.87%	112.74%	64.71%
Downside Capture ⁶	-163.50%	-38.27%	-47.25%

¹ iShares iBoxx \$ High Yield Corporate Bond ETF (HYG)

² iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD)

³ Allocation of Investment return calculations based on actual 2017 T5013 tax slip prepared by SGGG Fund Services.

⁴ Using 1-year T-bills.

⁵ iShares Canadian Government Bond Index ETF (XGB)

⁶ Negative downside capture vs. XGB, TSX, and S&P 500 is a result of NorthStream generating positive returns in months when these indices generated negative returns.

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