NorthStream Credit Strategies Fund LP

Monthly Commentary: March 2018

The NorthStream Credit Strategies Fund LP generated a return of 0.72% for the month of March as stock markets experienced turbulence due to concerns over the likelihood of increasing barriers to global trade. The high yield bond market was down -0.58% for the month as credit spreads on corporate bonds widened.[1] The Fund generated 130 basis points of outperformance in March relative to the high yield index due to our shorter duration, a 23% weighting in yield-to-call bond positions and realization on event driven opportunities including a 20 point capital gain on our position in Newalta Corporation's 5.875% notes maturing 2021.

Below we provide a summary of our investment thesis on Newalta Corporation, which was a more complex and research-intensive position. In 2016 active rigs in Canada fell to a daily average of 129 compared to 194 active rigs in 2015 and 379 in 2014. Newalta's waste removal volumes and revenue were impacted by the lower drilling activity and lower realized crude prices for oil recovered in waste processing. In April 2016, Newalta raised $51 million of equity at $1.70 per share which was used to reduce bank debt to $36 million leaving a small amount of secured debt ahead of the two bonds outstanding including the $125 million of 7.75% bonds maturing 2019 and the $150 million of 5.875% bonds maturing 2021. The company also negotiated covenant waivers on their credit facility, improving available liquidity and providing a longer runway to refinance the bonds maturing in 2019 in a potentially better commodity environment, resulting in a lower cost of debt.

The bonds maturing 2019 appreciated from the mid $80's to the mid $90's after the equity raise while the bonds maturing 2021 appreciated from the high 70's to the mid 80's in the second half of 2016. In the fourth quarter of 2016 the cost of debt or yield on the bonds maturing 2021 was approximately 10%. At this time management had provided guidance that operating cash flow could improve to $100+ million with oil prices above $60 and a normalization of drilling activity. Guidance for 2017 was for $40-$55 million of operating cash flow based on a $45-$60 price for WTI used in Newalta's budget.

We purchased a small amount of the 2019 bonds in June 2016 at $86.25 and gradually accumulated the 2021 bonds in the second half of 2016 at prices ranging from $74.25 to $87. Our investment thesis was that waste volumes and asset utilization would improve as capital budgets for energy producers returned to levels that sustained current production. We also believed that consolidation was necessary in the energy services sector and Newalta was the smaller competitor relative to Secure Energy Services and Tervita. Our investment decision was based on Newalta's fundamentals and barriers to entering the waste removal sector; potential consolidation was a benefit but not the core rationale for the investment.

Oil prices improved in Q1 2017, trading at the high end of the $50-$55 range that began in the second half of 2016. We wanted to see evidence of the operating leverage to higher oil prices in the Q1 2017 results and a corresponding upward adjustment to 2017 guidance. The Q1 results did not provide the confirmation we anticipated so we requested a meeting with management. In our discussion with management we learned that activity in regions dominated by heavy oil production had yet to respond to higher oil prices.

In Q2 2017 oil prices began to soften and briefly dipped below $45 in June 2017 causing Newalta's 2021 bonds to soften from a price of $85 to approximately $80. We reviewed our model and requested another meeting with management in August 2017. The information we gathered from the meeting was that management expected heavy oil activity to improve once oil reached $60 per barrel, the company set a timeframe to refinance the 2019 bonds no later than Q2 2018, and that most of cost cutting measures had been achieved.

In the fourth quarter of 2017 oil rallied from the low $50's to the low $60's however Newalta's stock price declined causing us to revisit our investment thesis. In November 2017 we requested a meeting with DBRS immediately after the annual rating review was completed. DBRS confirmed Newalta's current CCC rating, however the outlook was changed to positive. During the meeting we discussed the rating methodology and how the company performed relative to the financial model for 2017 submitted by management in 2016. DBRS commented that management consistently met their internal operational targets in 2017 which influenced their decision to change the rating outlook to positive, due to management's good visibility on operations.

I asked what would trigger a rating upgrade for Newalta. The response from DBRS was a rating upgrade was likely if management achieved guidance in the first half of 2018 and the 2019 bonds were successfully refinanced. The November DBRS meeting was important in confirming that our thesis was still intact and that we should continue to hold the position despite the weakness in energy and oil service equities. The possibility of a rating upgrade and refinancing of the bonds maturing in 2019 also provided a near term catalyst.

On March 1st 2018 Newalta and Tervita, a private waste and environmental services company, agreed to merge causing Newalta's bonds maturing 2021 to appreciate 20 points to $98. The bonds have a change of control put exercisable at $101 thirty days after closing of the transaction, expected in the second or third quarter of 2018.

Our position weighting in Newalta bonds was 3% at the end of February. If we remove the contribution from our Newalta position in March, the portfolio would have returned .11% for the month and generated 69 basis points of outperformance relative to the high yield benchmark. In our February internal risk report we categorized Newalta as a total return position. After the announcement of the merger it has moved to the yield-to-call-risk category. Our current portfolio weightings by risk category at the end of March are 23% yield to call, 63% event driven, and 14% total return.

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%	0.72%	-	-	-	-	-	-	-	-	-	**2.06%**
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: 31.67%

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 March 31st, 2018.

Performance & Risk Metrics	
Return Since Inception	31.67%
YTD	2.06%
1-YR Return	10.04%
Annualized Since Inception	15.43%
% of Positive Months	95.65%
Maximum Drawdown	-0.89%
Annualized Standard Deviation	3.74%
Sharpe Ratio[2]	3.70

Correlation			
Index	**XGB[3]**	**TSX**	**S&P500**
Correlation	-3.49%	42.78%	16.67%
Upside Capture	96.01%	112.74%	64.71%
Downside Capture[4]	-163.50%	-48.72%	-42.93%

[1] iShares iBoxx $ High Yield Corporate Bond ETF (HYG)
[2] Using 1-year T-bills.
[3] iShares Canadian Government Bond Index ETF (XGB)
[4] 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.