



NorthStream Credit Strategies Fund LP

Monthly Commentary: July 2018

The NorthStream Credit Strategies Fund generated a return of 0.30% for the month of July, 3.46% YTD, and 33.47% in the 27 months since inception. During July the portfolio experienced some modest repricing in our Canadian dollar denominated positions and modest capital appreciation in our US dollar denominated positions. The portfolio benefitted from some incremental gains in two yield-to-call positions including Aimia and Newalta, which are not a typical source of incremental capital appreciation.

We expected the Newalta bonds to hover around \$101, which is the put option price available to bond holders upon a change of control, however the acquiror (Tervita) chose to exercise the call option at a price of \$101.938 for redemption on August 18th.

Aimia's 2019 senior secured bonds have been a consistent contributor to the portfolio over the past year providing an excellent risk adjusted reward, particularly relative to the preferred shares and common equity. We began purchasing the secured debt at a price of \$92 in May 2017 after the bonds were downgraded to non-investment grade. Our investment thesis was that Aimia had ample liquidity to address the 2019 bond maturity and additional asset coverage in the equity ownership of numerous loyalty programs including PLM, regardless of the potential increase in redemptions from Air Canada choosing not to renew its contract with Aimia beyond 2020. The Aimia bonds traded up from \$99 to \$101 on the announcement of the hostile bid for Aeroplan from Air Canada. Aimia's secured debt is a great example of a fallen angel event-driven opportunity for NorthStream that we will include as a case study in a future commentary.

In 2018 we saw the S&P 500 equity volatility index (VIX) spike in early February, rapidly increasing to over 37, and we began looking for signals from other asset classes to estimate the direction of equity and credit markets. We watched the spread-to-worst on investment grade credit drift up from a low of 88 bps in early February to approximately 115 bps in early May 2018. Another variable we follow is the Credit Suisse credit risk appetite index, which had positive readings of +5.02 at the end of February and then consistently declined until mid-May 2018, where it turned negative for the first time since March 2016 when high yield credit spreads were bottoming. In May the VIX had fallen below 15 however investment grade bond spreads continued to widen in May and June reaching their near term peak of 129 bps on June 27th. On June 28th the Credit Suisse risk appetite index reached a level of -4.12, which is an extremely negative reading.

Over the past four months our portfolio positioning has gotten more defensive in response to these weak market fundamentals. Our portfolio duration has decreased to 2.8 years at the end of July from 3.2 years in May. Additionally our yield-to-call weighting increased from 29% to 32% during the same period, which we would use as a source of liquidity to pivot into higher yielding opportunities as they arise. As July progressed the Credit Suisse credit risk appetite index has rallied to a level of -1.94 and investment grade credit spreads have rallied. We have not seen the expected volatility and dislocation associated with the deterioration in these market variables. At this point it is unclear whether we had false leading indicators of a near term credit sell off, however we are compelled to take steps to preserve capital and have the capacity to take advantage of market dislocations when they occur.

Our bond holdings by rating were 23% BB, 56% B, 10% CCC and 11% unrated. Canadian dollar positions comprised 76% of the portfolio with the balance denominated in US dollars.

The performance, risk, and correlation metrics are detailed on the following page.



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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%	0.72%	0.52%	-0.17%	0.30%	-	-	-	-	-	3.46%
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: 33.47%

The NorthStream Credit Strategies Fund LP ("the Fund") launched on May 2, 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 Inc. Past performance is not indicative of future results. Performance, risk metrics, and correlations are as of July 31, 2018.

Performance & Risk Metrics

Return Since Inception	33.47%
YTD	3.46%
1-YR Return	9.78%
Annualized Since Inception	13.69%
% of Positive Months	92.59%
Maximum Drawdown	-0.89%
Annualized Standard Deviation	3.63%
Sharpe Ratio ¹	3.25

Correlation

Index	XGB ²	TSX	S&P500
Correlation	-3.17%	29.32%	12.62%
Upside Capture	87.76%	86.33%	56.84%
Downside Capture ³	-146.47%	-48.72%	-42.93%

¹ Based on 1-year T-bills.

² iShares Canadian Government Bond Index ETF (XGB)

³ 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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