



NorthStream Credit Strategies Fund LP

Monthly Commentary: August 2018

The NorthStream Credit Strategies Fund generated a return of 0.30% for the month of August, 3.77% YTD, and 33.87% in the 28 months since inception. Five-year government bonds in Canada and the US tightened 6 bps and 9 bps respectively while spreads on high yield bonds widened slightly, making it a month where the coupon generated a positive return for the portfolio.¹

During the month we had a realization on our position in Newalta bonds, as the acquiror (Tervita) exercised the option to call the bonds. We also made the following changes to the portfolio:

- added to two existing short maturity positions;
- purchased a new position in a company that was a ratings upgrade target;
- initiated a risk arb position in a company that received a hostile bid from a potential acquiror where there is potential for a capital gain, as bondholders have an option to exercise a change of control put at \$101 if the deal closes;
- closed two short positions during the month after the Q2 earnings releases;
- initiated one new short position.

Despite signs of inflation and continued central bank tightening, the yield curve remains quite flat. We anticipate a 25 bps rate hike in the US on September 26th and one other interest rate increase in the fourth quarter. The yield pick-up on the US 10-year bond vs. the US 2-year bond is 29 bps and 24 basis points respectively in Canada. Given how flat the yield curves in North America are at present, we expect the 50 bps of rate increases in the US market to be a headwind on corporate bond prices for the remainder of 2018. We have structured the portfolio to withstand further rate increases by keeping our duration fairly short at 2.8 years. The portfolio is well positioned to take advantage of potential volatility given our 30% weighting in yield-to-call bonds that have staggered maturities over the next 12 months, providing a consistent source of liquidity. Overall, we view an increase in interest rates and periodic swings in credit spreads as an opportunity to purchase positions with better value and return profiles. We have positioned the portfolio to take advantage of such opportunities.

Our bond holdings by rating were 22% BB, 58% B, 5% CCC and 15% unrated. Canadian dollar positions comprised 72% of the portfolio with the balance denominated in US dollars. The performance, risk, and correlation metrics are detailed in the tables 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% | 0.72% | 0.72% | 0.52% | -0.17% | 0.30% | 0.30% | - | - | - | - | 3.77% |
| 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: 33.87%

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 August 31, 2018.

| Performance & Risk Metrics | |
|-------------------------------|--------|
| Return Since Inception | 33.87% |
| YTD | 3.77% |
| 1-YR Return | 8.70% |
| Annualized Since Inception | 13.32% |
| % of Positive Months | 92.86% |
| Maximum Drawdown | -0.89% |
| Annualized Standard Deviation | 3.60% |
| Sharpe Ratio ² | 3.16 |

| Correlation | | | |
|-------------------------------|------------------|---------|---------|
| Index | XGB ³ | TSX | S&P500 |
| Correlation | -4.70% | 31.38% | 9.78% |
| Upside Capture | 85.37% | 86.33% | 53.27% |
| Downside Capture ⁴ | -146.47% | -47.52% | -42.93% |

¹ ICE BAML US High Yield Master II Index (H0A0).

² Based on 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.

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