



NorthStream Credit Strategies Fund LP

Monthly Commentary: December 2018

The NorthStream Credit Strategies Fund returned -0.67% in December, compared to -2.19% for the high yield index. The high yield bond index experienced volatility in December causing the yield-to-maturity to increase by 64 bps in December to 8.01%. Interest rates decreased approximately 31 bps across the curve in both Canada and the US, causing the spread-to-worst on the high yield index to increase 102 basis points to 533 bps.

Our outperformance for the month was due to our 38.08% weighting in yield-to-call positions and emphasis on event-driven opportunities such as the Trinidad Drilling / Ensign merger arbitrage. For the month, we had positive outcomes on three risk arb positions that equaled 10.39% of the portfolio.

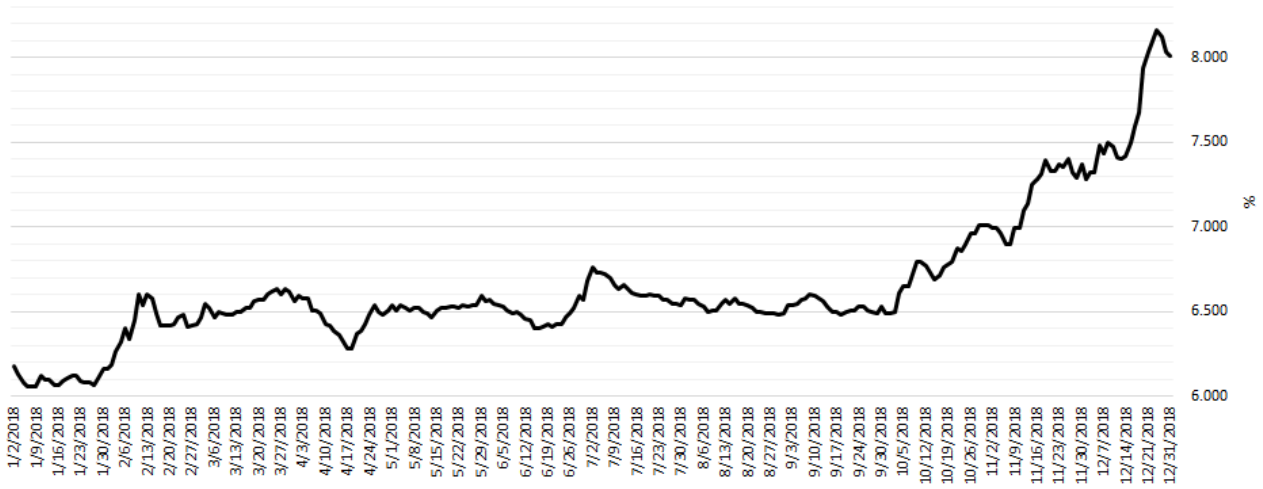
In 2018, our portfolio positioning became increasingly defensive as risk factors became more apparent. As the charts on the following page show, we reduced our portfolio duration to 2.30yrs (from 3.54yrs in March 2018) and increased our weighting in yield-to-call positions to 38.08% (from 23.32% in March 2018). In building our yield-to-call positions, we created a maturity ladder that provides ample liquidity in the coming six months to take advantage of the current market dislocation. These defensive actions resulted in the fund generating a positive return of 0.85% in 2018 and outperforming the high yield index by 312 bps in a year where most asset classes experienced a negative return.¹

Quite often, when the high yield index experiences a negative annual return, the following year has an attractive or significantly better return profile. Currently, high yield default rates are at record lows of 1.87% compared to the 30 year average of 3.74% and we do not see a sector with glaring excess that will cause default rates to escalate materially in 2019.

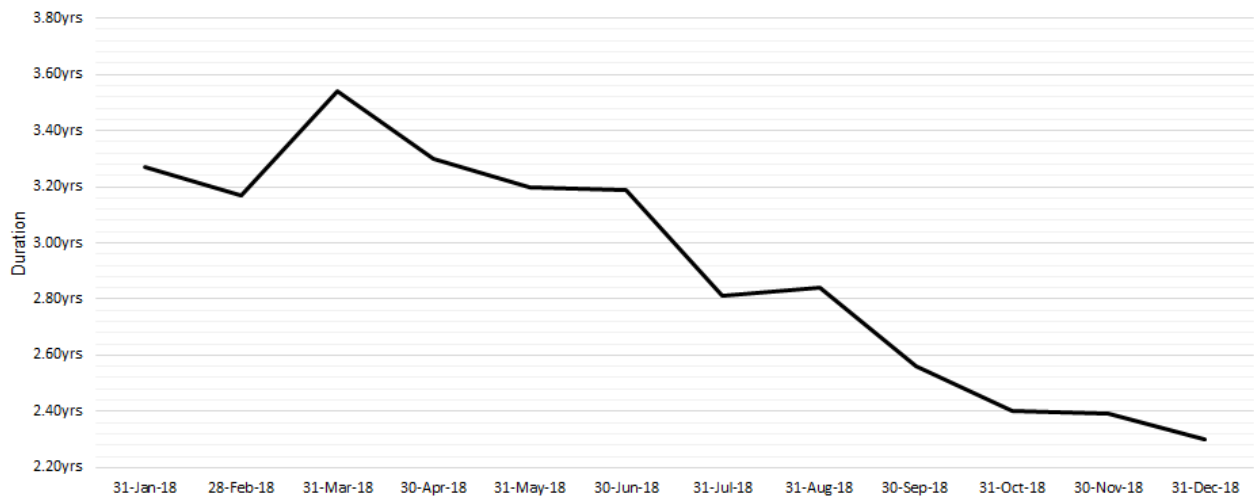
We believe the portfolio is well positioned to rebalance with higher yielding securities in 2019, using the yield-to-call weighting of our portfolio as a source of capital for new positions. In Q1/2019, we have 10.39% of the portfolio that will mature and another 25.51% of the portfolio maturing in Q2/2019. The yield-to-maturity on the high yield index increased from 6.18% at the beginning of 2018 to end the year at 8.01%, providing a much more attractive environment to rebalance the portfolio with higher yielding securities during periods of volatility.

Our bond holdings by rating were 18% BB, 61% B, 4% CCC, and 17% unrated. Canadian dollar positions comprised 62% of the portfolio. The performance, risk, and correlation metrics are detailed in the tables on page 3.

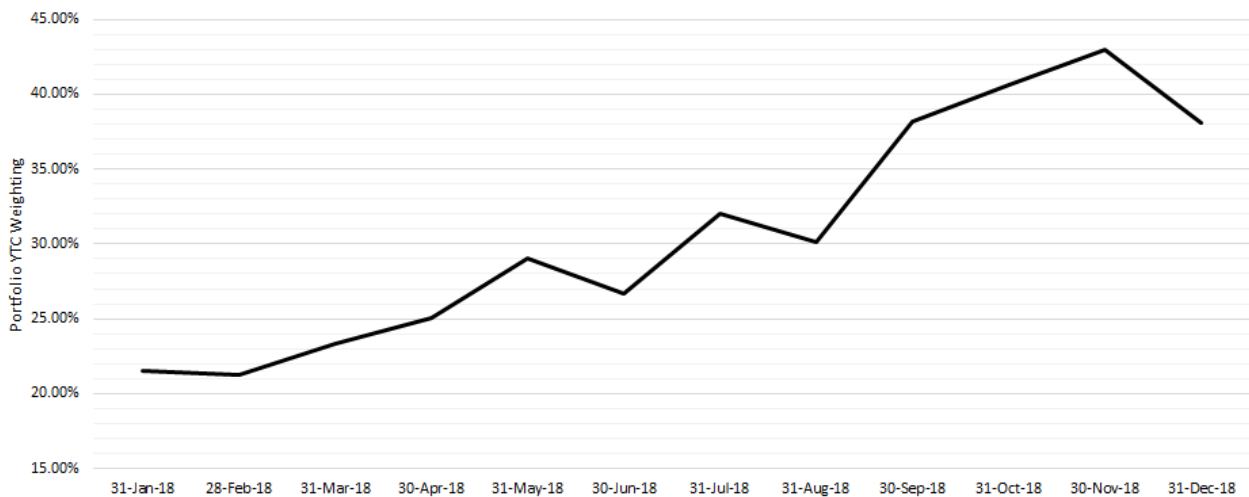
ICE BAML High Yield Index (H0A0) Yield-to-Maturity - 2018



NorthStream Portfolio Duration - 2018



NorthStream Yield-to-Call Portfolio Weighting - 2018





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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%	0.30%	-0.11%	-0.61%	-1.44%	-0.67%	0.85%
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: 30.10%

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 December 31, 2018.

Performance & Risk Metrics	
Return Since Inception	30.10%
YTD	0.85%
1-YR Return	0.85%
Annualized Since Inception	10.37%
% of Positive Months	81.25%
Maximum Drawdown	-2.81%
Annualized Standard Deviation	3.98%
Sharpe Ratio ²	2.14

Correlation			
Index	XGB ³	TSX	S&P500
Correlation	-10.04%	42.73%	30.51%
Upside Capture	59.20%	77.29%	47.24%
Downside Capture ⁴	-121.38%	-10.52%	-8.37%

¹ ICE BAML High Yield Master II Index (H0A0) December 2018 return = -2.27%.

² Using 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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