



## NorthStream Credit Strategies Fund LP

*Monthly Commentary: February 2019*

The NorthStream Credit Strategies Fund returned 1.34% in February, as credit spreads continued to tighten from the recent highs in December. Credit spreads tightened by 45 bps during the month and reached the early November lows, with the yield-to-maturity on the high yield index rallying to 6.49%, retracing more than 75% of the fourth quarter sell-off.<sup>1</sup> The demand for credit has improved as the risk of rising interest rates, which was a significant headwind in 2018, has subsided as the Fed and the Bank of Canada have stated there is no immediate need for additional rate hikes.

In 2018, our portfolio positioning became increasingly defensive as risk factors became more apparent. We reduced our portfolio duration to 2.30yrs and created a ladder of maturities and event-driven opportunities that would provide a staggered source of liquidity. In December 2018, we had 7.5% of the portfolio that was called or matured. We used this source of liquidity to purchase attractively priced BB-rated companies in January and February.

In Q1 2019, 12.6% of positions in the portfolio were redeemed, called, or were risk arbitrage opportunities where we were able to exercise a change of control put. These positions included the Hydro One installment receipts that were redeemed due to the failed merger with Avista Corp, the 2019 Aimia bonds that were retired with the proceeds from the sale of Aeroplan, and the Trinidad Drilling bonds maturing 2025, where we exercised our right to put the bonds to Ensign (the acquiror) upon a change of control at a price of \$101.50.

Before the end of Q2 2019, 14% of the portfolio will be redeemed, called, or be eligible for a change of control put. These positions include the Atlantic Power debentures maturing in 2019 which have been called, the First Quantum bonds maturing 2021 which have been called at \$101.75, the Element Fleet debentures maturing in June 2019, and the AGT Foods bonds maturing in 2021, where we have exercised our right to put the bonds at \$101.50 upon a change of control.

The recent appreciation of the high yield bond market has caused the yield-to-maturity to be more normalized relative to the December lows. We anticipate near term resistance to further spread tightening and expect that concerns regarding economic growth will create periods of volatility in 2019. Our strategy is to keep our portfolio duration short and find more event-driven opportunities that will cause the portfolio to be less correlated with the broader market. Our ladder of maturities will provide us with the necessary liquidity to take advantage of market opportunities as they arise in the coming year.

Our bond holdings by rating were 2% BBB, 22% BB, 53% B, 5% CCC, and 18% unrated. Canadian dollar positions comprised 65% of the portfolio. The performance, risk, and correlation metrics are detailed in the tables 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
2019	1.08%	1.34%	-	-	-	-	-	-	-	-	-	-	2.43%
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: 33.26%**

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 February 28, 2019.

Performance & Risk Metrics	
Return Since Inception	33.26%
YTD	2.43%
1-YR Return	1.94%
Annualized Since Inception	10.67%
% of Positive Months	82.35%
Maximum Drawdown	-2.81%
Annualized Standard Deviation	3.87%
Sharpe Ratio <sup>2</sup>	2.29

Correlation			
Index	XGB <sup>3</sup>	TSX	S&P500
Correlation	-9.25%	38.01%	30.14%
Upside Capture	68.05%	60.61%	41.90%
Downside Capture <sup>4</sup>	-121.38%	-10.52%	-8.37%

<sup>1</sup> ICE BofAML US High Yield Index (H0A0).

<sup>2</sup> Using 1-year T-bills.

<sup>3</sup> iShares Canadian Government Bond Index ETF (XGB).

<sup>4</sup> 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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