



NorthStream Credit Strategies Fund LP

Monthly Commentary: July 2019

Our portfolio returned 0.99% for the month of July, as we continued to have realizations on event-driven credit positions. The uncertainty regarding trade and global growth has created volatility in the fixed income markets. Globally, the amount of government bonds with negative interest rates has grown from US\$13 trillion at the end of June to US\$15.5 trillion presently, causing some individuals to suggest that the asset class be renamed "fixed expense" rather than fixed income.¹ Are risks in the bond market increasing and what are the risks that an investor should recognize?

One way of gauging bond market risk is by looking at duration, a measure of a bond's sensitivity to interest rates. Assume the duration on the negative yielding government bonds is 10 years. If interest rates rise a full percentage point, the bonds would lose 10% of their market value (or US\$1.5 trillion). We have managed our duration risk by having a portfolio duration of 2.3 years and a high weighting in event-driven and yield-to-call bonds.

Another risk in the corporate bond market is liquidity risk - the ability to get out of a position when you want to exit. The ability to buy and sell bonds without affecting prices declines during periods of high volatility. Typically, the amount of repricing is positively correlated with the duration of the bond. The secondary market is the most common source of liquidity for corporate bonds. The other source of liquidity is from issuers as they decide to call, tender for outstanding debt, or in the case of mergers, holders of non-investment grade debt can choose to exercise a change of control put.

Our event-driven and yield-to-call positions benefit from having the company as a source of liquidity rather than the market. We had two realizations in July including the bonds of Dorel Industries and US cemetery operator, Stonemor Partners, which were both called by the companies. The majority of our realizations in 2019 have been the result of corporate actions, rather than sales in the secondary market.

Our portfolio positioning has the flexibility to take advantage of market opportunities. Currently, we have 18% of the portfolio in yield-to-call positions that will be redeemed, called, or be eligible for a change of control put in the next 12 months. We have another 30% of the portfolio that will mature or will likely be called/retired before 2021. These positions have the opportunity to benefit from call premiums as companies look to take advantage of current favourable refinancing conditions and lock in affordable fixed rate funding.

Our bond holdings by rating were 2% BBB, 28% BB, 37% B, 18% CCC, and 15% unrated. Canadian dollar positions comprised 68% of the portfolio. The performance, risk, and correlated metrics are detailed on the following page.

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%	0.41%	0.79%	-1.41%	1.00%	0.99%	-	-	-	-	-	4.26%
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: 35.64%

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, 2019.

Performance & Risk Metrics	
Return Since Inception	35.64%
YTD	4.26%
1-YR Return	1.63%
Annualized Since Inception	9.83%
% of Positive Months	82.05%
Maximum Drawdown	-2.81%
Annualized Standard Deviation	3.83%
Sharpe Ratio ²	2.13

Correlation			
Index	XGB ³	TSX	S&P500
Correlation	-17.17%	41.92%	37.16%
Upside Capture	57.06%	58.05%	37.48%
Downside Capture ⁴	-124.28%	-2.29%	-0.50%

¹ Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value BNYDMV Index

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.

