



## **NorthStream Credit Strategies Fund LP**

### *Monthly Commentary: August 2019*

The NorthStream Credit Strategies Fund returned -0.31% for the month of August, as credit spreads widened slightly due to ongoing growth concerns. The amount of government bonds with negative interest rates continued to march higher, touching US\$17 trillion at the end of August.<sup>1</sup>

We view the material decrease in interest rates in North America as being created by the magnitude of negative rates in Europe. So, what will cause this distortion to end and when? We believe the event will come from Europe in the form of a rebalancing of the policy mix from monetary to fiscal policy.

When? Well, not today as the ECB cut interest rates further into negative territory and will begin open ended bond purchases. The ECB also changed its guidance on interest rates to say that they will stay at present or lower levels until the outlook for inflation "robustly" converges to its goal of just below 2%. It previously expected borrowing costs to stay unchanged until mid-2020.

Although it appears there will be lower European rates for longer, there has recently been a rotation out of growth and into value, cyclicals, and financials. It is possible that the catalysts for North America will be stability in negative rates and the anticipation of a rebalancing of the policy mix in Europe, rather than the announcement. Regardless of timing, the risk of a change in policy mix needs to be incorporated into one's portfolio positioning.

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 financing conditions and lock in affordable fixed rate funding.

Our bond holdings by rating were 2% BBB, 31% BB, 36% B, 17% CCC, and 14% unrated. Canadian dollar positions comprised 66% of the portfolio. The performance, risk, and correlation 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%	-0.31%	-	-	-	-	3.94%
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: 35.23%

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, 2019.

Note that the use of the XGB, TSX, and S&P 500 in the performance tables below is for informational purposes only. The XGB (iShares Canadian Government Bond Index ETF), TSX, and S&P 500 have a different composition than the Fund and are not comparable benchmarks. The XGB, TSX, and S&P 500 were chosen to compare the Fund's performance returns against other asset classes.

### Performance & Risk Metrics

Return Since Inception	35.23%
YTD	3.94%
1-YR Return	1.01%
Annualized Since Inception	9.48%
% of Positive Months	80.00%
Maximum Drawdown	-2.81%
Annualized Standard Deviation	3.83%
Sharpe Ratio <sup>2</sup>	2.07

### Correlation

Index	XGB <sup>3</sup>	TSX	S&P500
Correlation	-20.37%	41.66%	38.42%
Upside Capture	51.02%	56.96%	37.48%
Downside Capture <sup>4</sup>	-124.28%	-2.29%	0.76%

<sup>1</sup> Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value BNYDMVU Index

<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.

