

The NorthStream Credit Strategies Fund returned +1.23% for the month of May, as the strength in cyclical sectors continued and government bond yields remained range bound. Our excess return in May relative to the high yield index was 107 basis points.

The sectors leading the S&P 500 higher were materials (+5.04%), energy (+4.90%), financials (+4.68%), and industrials (+2.89%) as shown in the chart below.

**S&P Sector Performance - May 2021**



Source: Bloomberg

Inflation readings—CPI, PPI, PCE, and Breakevens—have jumped meaningfully over the past several months. In response, Fed officials have begun to discuss (with lots of hedging language) the tapering of asset purchases, and investors have brought forward their expectations for the first rate hike.

**Inflation Expectations (TIPS Breakevens)**



Real assets such as oil have historically proven to perform well during periods of increasing inflation. Real assets also have low correlations to major equity indices and tend to perform well when other asset classes are not. Canadian oil & gas companies are also trading at historically low valuation multiples as the sector remains unloved, under owned and currently generates double digit free cash flow yields.

More importantly the energy sector does not have distorted or manipulated valuation from day traders or the Reddit/meme crowd. Recently I saw a statement on the Saudi Aramco website that puts some perspective on the role of the energy sector in our economy: “Saudi Aramco is—more even than Apple or Alphabet or Facebook Inc. or all the traditional champions—the greatest machine for the generation of money that the world has ever seen.” However, our short term memory is of the energy sector’s weighting in major equity indices falling for many years. As of July 31, 2020, the energy sector made up less than 3% of the S&P 500 Index and roughly 2% of the Russell 2000 Index. To put that in perspective, in 1980 the energy sector peaked at 30% of the S&P 500 Index.

The oil price decline last April created excellent opportunities in the credit markets. Our position in Baytex Energy bonds has doubled from our initial purchase price, now trading above par. Energy service companies are also benefitting from the recovery in energy and currently have attractive refinancing conditions.

We added to our position in the Ensign Drilling bonds last December at a price of \$60.25. In 2020, the company repurchased over \$150 million of bonds in the secondary market at an average cost below 50 cents of par value. Despite the aggressive & consistent bond repurchases by the company there was no secondary market demand for the bonds even as energy prices had recovered. At the end of May 2021, the Ensign bonds had a market price of \$80.25 or a yield to maturity of 18.46%. During the first week of June 2021, Precision Drilling refinanced its short-term maturities with a new bond maturing in 2029 and a coupon of 6.875%. The valuation gap between Precision Drilling and Ensign is tightening with a ~10- point gain in the Ensign bonds since the end of May, providing a tailwind for the portfolio in June.

The cyclical names in the portfolio have attractive upside potential in an environment where we have a steepening yield curve and the probability of a strong rebound in US GDP in the second half of 2021.

NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	10.84%	4.70%	4.87%	-0.06%	1.23%	-	-	-	-	-	-	-	23.12%
2020	0.32%	-0.43%	-14.44%	0.43%	1.03%	3.67%	1.01%	2.99%	1.88%	2.36%	2.18%	9.47%	9.09%
2019	1.08%	1.34%	0.41%	0.79%	-1.41%	1.00%	0.99%	-0.31%	0.86%	-1.99%	0.01%	0.75%	3.53%
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%

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 May 31, 2021. 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.

### Return Since Inception: 80.91%

Performance & Risk Metrics	
Return Since Inception	80.91%
YTD	23.12%
1-YR Return	54.89%
Annualized Since Inception	12.37%
% of Positive Months	80.33%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	10.14%
Sharpe Ratio <sup>1</sup>	1.20

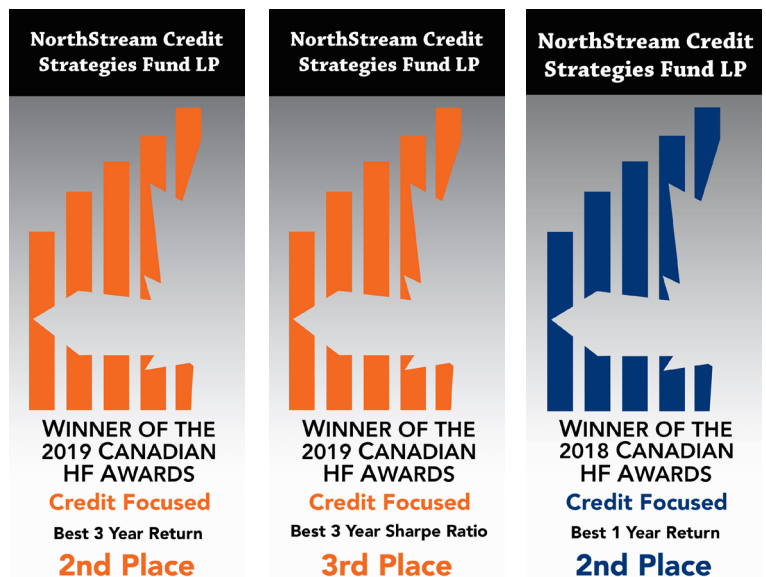
  

Correlation			
Index	XGB <sup>2</sup>	TSX	S&P500
Correlation	-14.55%	53.28%	39.56%
Upside Capture	95.09%	57.46%	37.15%
Downside Capture <sup>3</sup>	-113.73%	6.54%	-1.75%

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

<sup>2</sup> iShares Canadian Government Bond Index ETF (XGB).

<sup>3</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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