



NorthStream Credit Strategies Fund LP *Monthly Commentary: October 2021*

The NorthStream Credit Strategies Fund returned +1.09% for the month of October compared to a -0.33% decline for the high yield index. The S&P 500 rose 6.98% in October with the energy, technology and materials sub-indexes appreciating 10.2%, 8.1% and 7.6% respectively.

On November 3rd the FOMC announced that it will begin to taper asset purchases, with a reduction of \$10 billion in Treasuries and \$5 billion in MBS starting in mid-November, leaving total monthly purchases at \$70 billion in Treasuries and \$35 billion in MBS. The Fed will continue to reduce purchases at the same pace every mid-month, with taper set to end in June 2022. Powell made it clear that the FOMC is not discussing rate hikes yet and that discussions won't be had until the maximum employment goal is met.

Between March and June of 2020, the Fed expanded its balance sheet by over \$3 trillion. Additionally, since June of 2020, they have been purchasing \$120 billion worth of securities (\$80 billion U.S. treasuries and \$40 billion Mortgage-Backed Securities) per month. This has resulted in a further expansion of the balance sheet, so that the total assets of the Federal Reserve now stand at approximately \$8.5 trillion and likely growing until June of 2022.

This substantial liquidity injection has caused assets to appreciate, boosting the trailing P/E ratio on the S&P 500 to 25.8x. Based on several valuation measurements - trailing P/E, forward P/E, Shiller P/E, price to sales, or the Buffet indicator of stock market capitalization to GDP, valuations are a concern.

Over the past year, valuations between some groups have become distorted, creating opportunity. P/E ratios for cyclicals have contracted over the past year whereas tech P/E's have jumped. The gap between these two groups is the widest in over a decade. Over the past year, valuations between some groups have become distorted, creating opportunity. P/E ratios for cyclicals have contracted over the past year whereas tech P/E's have jumped. The gap between these two groups is the widest in over a decade.

A good example of the attractive valuation for cyclical companies is Baytex Energy, which is our largest bond position. At current commodity prices Baytex will generate approximately \$530+ million of free cash flow in the next twelve months. This equates to a 25% free cash flow yield on the common equity or a 3.3x multiple of price to cash flow per share for 2021 and 2.0x for 2022.

Many energy companies are using the significant free cash flow generated to return capital to shareholders through a combination of dividend increases and share buybacks. Baytex is using its free cash flow to reduce debt and currently does not pay a dividend. The company generated free cash flow of \$101 million in Q3 2021 and reduced debt by \$65 million. Since October 1, 2021, the company has repurchased and cancelled US\$85 million of the 5.625% notes maturing in 2024. Our portfolio holds the 8.75% notes maturing in 2027 which are callable in April 2023 at \$106.6.

We believe that exposure to cyclicals through corporate bonds is attractive due the free cash flow generated at current commodity prices. Additionally, these bonds have a relatively short duration and upside in an inflationary environment.

The NorthStream Credit Strategies Fund achieved a significant milestone in October. At the 2021 Canadian Hedge Fund Awards, the fund received three first place awards for credit focused funds, winning the award for "Best 1 Year Return", "Best 3 Year Return", and "Best 5 Year Return". This brings the fund's cumulative Canadian Hedge Fund Awards to six in the first five years since inception.

Our focus remains the same: to identify and act on event-driven credit opportunities and generate tax-efficient returns without the use of leverage.

Our success equation also includes incredible support from our investors, service providers, and business partners.

About Canadian Hedge Fund Awards:

The Canadian Hedge Fund Awards, the highest honour in Canada's hedge fund industry, help investors identify the most exceptional hedge funds. A total of 226 Canadian Hedge Funds were included in the 2021 CHFA program. The awards are based solely on quantitative performance data to June 30th, with Fundata Canada managing the collection and tabulation of the data to determine the winners. There is no nomination process or subjective assessment in identifying the winning hedge funds.

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%	4.20%	-0.20%	-0.55%	3.78%	1.09%	-	-	33.58%
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 October 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: 96.29%

Performance & Risk Metrics			
Return Since Inception	96.29%		
YTD	33.58%		
1-YR Return	49.43%		
Annualized Since Inception	13.05%		
% of Positive Months	78.79%		
Maximum Drawdown	-14.81%		
Annualized Standard Deviation	9.95%		
Sharpe Ratio ¹	1.24		
Correlation			
Index	XGB ²	TSX	S&P500
Correlation	-14.85%	50.72%	35.37%
Upside Capture	100.52%	56.20%	36.17%
Downside Capture ³	-119.54%	-1.32%	-8.88%

¹ Using 1-year T-bills.

² iShares Canadian Government Bond Index ETF (XGB).

³ 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.

NorthStream Credit Strategies Fund LP

WINNER OF THE 2021 CANADIAN HF AWARDS

Credit Focused

Best 1 Year Return

1st Place

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Credit Focused

Best 3 Year Return

1st Place

NorthStream Credit Strategies Fund LP

WINNER OF THE 2021 CANADIAN HF AWARDS

Credit Focused

Best 5 Year Return

1st Place

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