

The NorthStream Credit Strategies Fund returned +1.39% for the month of October and 16.23% year to date. In past commentaries we have discussed whether we have reached peak inflation and at what level credit spreads may peak. Widening spreads are a signal that credit default rates are expected to rise from the current rate of 1-2% as funding costs increase. It's also an important phase of a credit cycle correction and the path for ultimately finding a market bottom.

We are now seeing signs of elevated stress in CCC rated credits as the cost of debt and equity capital is escalating for these more levered companies. Looking at the chart below we see that CCC rated yields hit a new high in October, increasing to 17% up from a low of 6.28% in July of 2021.

ICE BofA CCC US High Yield Index



Source: Bloomberg

The price decline in lower rated credits that do not meet expectations or require additional capital has been substantial. An example of a CCC rated credit that has been punished is theatre operator AMC Entertainment. In October AMC issued \$400 million of first lien debt at its European entity Odeon to retire \$471.1 million of term loans that were about to mature. The Odeon first lien bond was issued with a 12.75% coupon at a price of \$92 to yield 15%. The first lien Odeon bonds are rated B3/B compared to the holdco first lien bonds rated Caa1/B- issued by the company at par in February 2022 with a coupon of 7.5%, maturing in 2029. We sold short these bonds on March 30th, 2022 at a price of \$96.5 or a yield of 8.2%. At that point the CCC index was yielding 9.8%. Our thesis was that AMC Entertainment bonds were expensive relative to the index and the company was burning approximately \$200 million per quarter in negative free cash flow, which was overlooked by the debt and equity markets at that point.

AMC announced third quarter results on November 8th where they burned \$278 million in free cash flow to end the quarter with \$685 million of cash, and \$221 million available on its revolver. The tight liquidity position is now being noticed by the credit markets causing the bond to hit a low of \$56.65 or a yield to maturity of 20% as shown in the chart below.

AMC Entertainment Holdings 7.5% of 2029 - YTD Chart



Source: Bloomberg

Although the correction process is difficult, it is a necessary part of finding a bottom in credit spreads. Opportunities in the credit markets are becoming numerous with the yield on the high yield index above 9%. The market opportunity in high yield credit has caught the attention of many alternative asset managers that believe the price has fallen too low relative to the risks of default and are starting to build their holdings as described in the recent article in the Financial Times published on November 8th. Although we may not have found the bottom in high yield credit, investors are being increasingly rewarded for the risk of a recession with a yield above the current level of inflation.

NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-1.33%	-0.62%	1.39%	-	-	16.23%
2021	10.84%	4.70%	4.87%	-0.06%	1.23%	4.20%	-0.20%	-0.55%	3.78%	1.09%	-0.56%	0.08%	32.94%
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, 2022. 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: 127.06%

Performance & Risk Metrics			
Return Since Inception	127.06%		
YTD	16.23%		
1-YR Return	15.67%		
Annualized Since Inception	13.45%		
% of Positive Months	76.92%		
Maximum Drawdown	-14.81%		
Annualized Standard Deviation	9.59%		
Sharpe Ratio ¹	0.97		
Correlation			
Index	XGB ²	TSX	S&P500
Correlation	-20.51%	43.20%	27.10%
Upside Capture	80.92%	56.04%	35.78%
Downside Capture ³	-114.71%	-7.99%	-11.81%

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.



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