NorthStream Credit Strategies Fund LP

Monthly Commentary: February 2023

Stock and Bond Borrow Costs Are Rising

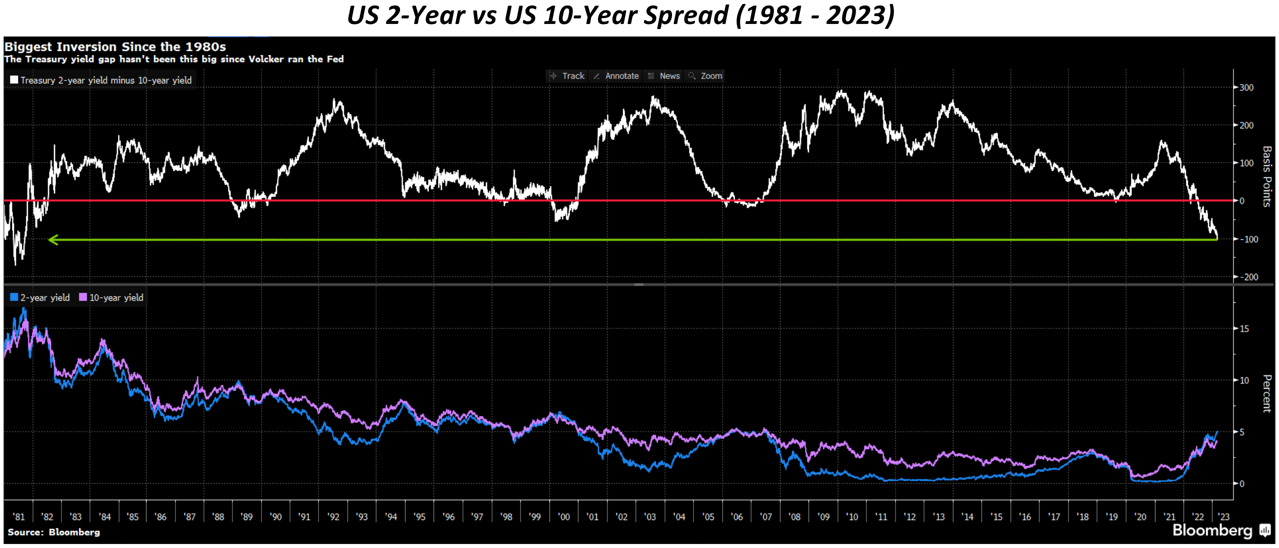
The NorthStream Credit Strategies Fund returned +2.65% for the month of February. The high yield index declined -1.6% as the 10-year bond yield increased from 3.51% to 3.92% at the end of February. The title of our last commentary was "Fade The Fomo" where we predicted bond market volatility would increase and become a headwind for risk assets. The MOVE Index which measures bond market volatility has increased from 99.5 at the end of January, rising to 123.6 at the end of February. **The S&P 500 VIX Index has hovered around 20 while bond market volatility has been consistently rising. So which market do you wish to believe is sending the correct signal?**

We recently closed our short position on the AMC Entertainment bonds ahead of the shareholder vote on March 14th to combine the APE preferred shares issued last August with the AMC common shares. During periods where there is a shareholder vote or announcement of proposed changes to the capital structure, the cost to borrow the common shares increases dramatically. Currently the borrow rate on AMC common shares is about 110% of market value and approximately 9% on the AMC bonds with limited availability. Comparatively, the cost to secure a borrow on AMC shares and bonds was approximately 8% and 1.4% respectively last March when we shorted the bonds. Our decision to cover the short position is because our prime broker can only source 1 million of AMC bonds available for borrow. Currently there is no borrow available on the bonds of Carvana; another zombie company that had robust access to the debt and equity markets a year ago. The bonds have risen from the low $30's to almost $50 over the last two months.

We conclude that some of the recent appreciation of more levered company equity and debt is not due to a more constructive opinion of the business; rather more funds that are long speculative company equity and debt are choosing to not make their securities available for borrow. A high borrow cost reduces the willingness to short a bond or stock and may motivate short sellers to cover their position in expectation of the borrow being unavailable in the future. **Increasing costs to borrow stocks or bonds is a signal of tightening financial conditions.**

The spread on the US 2-year vs the US 10-year is approximately -107 basis points as shown in the chart below. below.

US 2-Year vs US 10-Year Spread (1981 - 2023)



An inverted yield curve describes the unusual drop of yields on long-term debt below the yields on short term debt. The last time the US yield curve had inversion of -107 basis points was in 1981. An inverted yield curve has proven in the past to be a reliable lead indicator of a recession.

Currently the risk premium for high yield bonds measured in credit spreads are at levels not usually associated with recessions. In fact, credit spreads tightened in 2023. High yield credit spreads currently stand at 414 basis points which is below the 10-year average of 467 basis points. **Although the yield on the high yield bond index is 8.59%, we do not think the risk/reward is compelling just yet.**

Between December 1996 and December 2021, there were 28 months when the economy was in recession. The median spread on high yield bonds during those months was about 835 basis points based on ICE Bofa indexes. The duration of the high yield index is now 3.9 years.

Currently the yield on the 2-year Treasury bond is over 5%. The fed funds futures market is predicting a terminal rate of over 5.5% by summer of 2023. Historically, the 2-year Treasury bond peaks above the fed funds rate's highest point. Thus, we are likely to see yields rise on the 2-year by roughly another 1/2% to 1%, or even more, if this relationship holds.

We have mitigated the impact of the potential spread widening by shortening the portfolio duration below 1 year and maintaining several short positions. ***We believe a defensive portfolio positioning is warranted given the rising bond market volatility, the higher cost to borrow securities to initiate short positions and the unattractive risk premium available in credit spreads.***

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NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2023	0.69%	2.65%	-	-	-	-	-	-	-	-	-	-	**3.35%**
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-1.33%	-0.62%	1.39%	3.25%	3.09%	**23.70%**
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 February 28, 2023. 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: 149.76%

Performance & Risk Metrics	
Return Since Inception	149.76%
YTD	3.35%
1-YR Return	25.83%
Annualized Since Inception	14.33%
% of Positive Months	78.05%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.43%
Sharpe Ratio[1]	1.03

Correlation			
Index	**XGB**[2]	**TSX**	**S&P500**
Correlation	-19.66%	39.91%	24.95%
Upside Capture	79.09%	53.31%	35.29%
Downside Capture[3]	-119.28%	-15.35%	-17.67%

[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.