NorthStream Credit Strategies Fund LP

Monthly Commentary: April 2023

The NorthStream Credit Strategies Fund returned +0.49% for the month of April and +15.87% for the last twelve months. March ended with the belief that a few poorly managed banks had failed due to a mismatch of asset duration versus liabilities. These few banks with poor risk management failed and Government bonds rallied, easing the pressure on the banking system. In early May, the FDIC placed First Republic Bank into receivership and entered into an agreement with JP Morgan to purchase First Republic's $200+ billion of assets at a discount to book value. JP Morgan is not assuming First Republic's corporate debt or preferred stock. In the past two month's four banks have failed – SVB Financial, Silvergate, Signature, and First Republic. In total almost $600 billion in assets were impacted. Investors in the debt, preferred stock and equity of these four banks have experienced material losses.

The bank failures will result in a higher cost of debt and equity capital going forward, particularly banks that have perceived risks. The risks include banks with high exposure to the following asset categories: non-interest-bearing deposits, a high ratio of fixed rate securities and loans, large investments in commercial real estate and banks that have a large portion of assets that are not marked to market**. Of these four risks we believe the exposure to commercial real estate is of greatest concern. The other three risks can be somewhat mitigated by a material reduction in short term rates.**

The Fed's decision to raise short term rates above 5% in early May puts further stress on the banking system. The ability to attract deposits is challenging as deposits (particularly non-interest bearing deposits) are fleeing seeking higher returns elsewhere. Banks need deposit growth to maintain or grow their loan portfolio. Warren Buffett recently said, "You don't know what has happened to the stickiness of deposits at all. And that changes everything". It definitely changes the willingness to originate new loans unless the deposits have a matching maturity. Bank deposits at US domestically chartered commercial banks have fallen by a trillion dollars to $14.73 trillion in the first four months of 2023. The pressure on the banking system results in much tighter credit conditions for consumers and businesses. Restricting credit availability will slow the economy.

The yield curve has been inverted for about one year and is typically a reliable indicator of a recession. Corporate credit spreads have not widened materially in response to the signals from the yield curve of a potential recession. The segment of credit where we are seeing spreads widen significantly is in the commercial real estate sector.

Bloomberg CMBS Investment Grade BBB Average Spread

Source: Bloomberg

Above is a chart of the Bloomberg BBB rated commercial mortgage-backed securities index. The graph shows the spread over the benchmark government bonds for a one-year period increasing from 353 bps to a recent high of 715 bps. The credit spread on the BBB rated corporate bond index is currently 186 bps, indicating the expected probability of default on commercial real estate mortgages is much higher than similarly rated corporate debt.

Loans to the commercial real estate sector grew rapidly in 2021 and 2022 increasing 16% and 11% respectively, resulting in a market size of $5.31 trillion as measured by the Federal Reserve. Commercial loans make up close to 24% of all bank loans, the most since the financial crisis. The office market is particularly vulnerable as more than 17% of the entire US office supply is vacant and an additional 4.3% available for sublease. The financing challenges for the real estate industry is exacerbated by the proliferation of floating rate loans. Nearly $92 billion in debt for office properties from nonbank lenders comes due this year, and $58 billion will mature in 2024, according to the Mortgage Bankers Association. About 48% of debt on office properties that matures this year has a variable rate. For owners looking to sell there have been few sales of office properties. Transactions fell to their slowest pace since 2010, according to MSCI Real Assets. Office values are down 20% since March 2020.

We are closely monitoring CMBS investment grade credit spreads as it represents a significant portion of bank's total loan exposure that could force substantial provisions for credit losses and an erosion of bank's tier one equity capital. The commercial real estate sector could take several years to find an equilibrium between the cost of funding and a secondary market that will absorb the assets of real estate owners that have too much leverage or substantial pending maturities. **We view the commercial real estate sector as an important canary in the coal mine for the direction of corporate credit spreads.**

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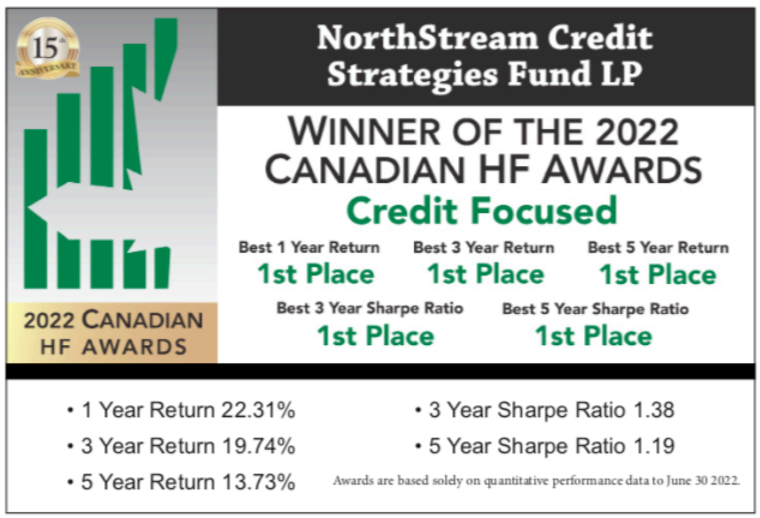
NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2023	0.69%	2.65%	0.50%	0.49%	-	-	-	-	-	-	-	-	**4.38%**
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-1.33%	-0.62%	1.39%	3.25%	3.09%	**23.70%**
2021	10.84%	4.70%	4.87%	-0.06%	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 April 30, 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: 152.25%

Performance & Risk Metrics	
Return Since Inception	152.25%
YTD	4.38%
1-YR Return	15.87%
Annualized Since Inception	14.13%
% of Positive Months	78.57%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.33%
Sharpe Ratio[1]	1.04

Correlation			
Index	**XGB**[2]	**TSX**	**S&P500**
Correlation	-19.94%	39.71%	24.69%
Upside Capture	75.89%	52.52%	34.83%
Downside Capture[3]	-119.28%	-15.90%	-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.