

**The NorthStream Credit Strategies Fund returned +1.10% for the month of June, +6.33% for the first half of 2023 and +11.44% for the last twelve months.**

Interest rates moved higher with the yield on 5-year Canadian government bonds increasing from 3.44% in May to 3.68% at the end of June. The Bank of Canada raised interest rates another 25 bps on July 12<sup>th</sup> to 5.00%, *the highest level since 2001*. The futures market for the remaining BOC meetings in September, October, and December of 2023 are currently indicating a 36% probability of additional rate increases for the remainder of 2023, indicating that the overnight rate is expected to remain at 5.00% or higher through 2023. If we look back to the futures market at the end of March 2023, the policy rate in Canada was expected to be around 4.00% at the end of 2023. In other words, the “higher for longer” narrative on interest rates continues to be relevant in both Canada and the US.

In our May commentary we highlighted the positive impact on the high yield bond market of a “higher for longer” environment resulting in higher coupons. If we look at the average coupon for the index, it is currently at 5.90%, trading at an average price of \$89.7 to yield 8.31%. The average maturity is 5.08 years, implying that most of this debt will be reset at similar market rates over the next five years (approximately 20% of the outstanding debt issued that will need to be refinanced each year). So, you might ask, what will be the average coupon on the high yield index in a “higher for longer” environment? Well, over the past 10 years the average credit spread over treasuries for the index was 458 basis points. The yield on the US 5-year treasury is over 4.00% and approximately 3.80% in Canada.

The table below shows the Bloomberg forecasts for bond yields over the next 10 quarters. The 5-year and 10-year treasuries are expected to remain in the mid 3.00% range over the next 2.5 years. Using these inputs to estimate the average coupon for the index over the next few years, we arrive at an average coupon for the index of approximately 8.00%. We arrive at that number by adding the average credit spread (458 basis points) over the past 10 years to the forecasted yield on the US five-year bond of approximately 3.50% or 350 basis points to reach an estimated average coupon of 8.08%.

US		Bond				Yield				Forecasts			
Region	G7	Spread 2 Year - 10 Year											
	Rate	Mkt Yld	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	
United States													
1)	US 30-Year	3.94	3.91	3.72	3.68	3.66	3.66	3.62	3.55	3.52	3.55	3.58	
2)	US 10-Year	3.83	3.72	3.50	3.43	3.39	3.35	3.29	3.26	3.24	3.24	3.27	
3)	US 5-Year	4.04	3.93	3.67	3.54	3.44	3.36	3.28	3.25	3.20	3.27	3.24	
4)	US 2-Year	4.76	4.54	4.17	3.89	3.64	3.45	3.26	3.19	3.05	3.08	3.00	
5)	US 3-Month Term SOFR	5.32	5.22	5.16	4.84	4.46	4.11	3.82	3.67	3.45	3.43	3.28	
6)	Fed Funds Rate - Upper Bound	5.25	5.45	5.40	5.10	4.65	4.20	3.85	3.65	3.30	3.20	3.10	
7)	Fed Funds Rate - Lower Bound	5.00	5.20	5.15	4.82	4.40	3.95	3.61	3.35	3.03	2.91	2.81	
	2 Year - 10 Year Spread	-0.93	-0.82	-0.66	-0.46	-0.25	-0.10	0.03	0.07	0.19	0.16	0.27	

Source: Bloomberg

If we look at the yield to maturity of the high yield index of 8.31%, that yield can be broken down into two main components, (1) the 5.90% coupon investors are entitled to receive each year (which is a contractual obligation of the issuer), and (2) the 2.10% in inputted annual capital appreciation that investors stand to gain, but do not know exactly when will happen, as the bonds appreciate from their current average market price of \$89.70.

Assuming no material credit event, the bonds will appreciate to par over the next five years, but we just don't know when the capital gain will occur. We expect the stock of more recently issued bonds will have



## NorthStream Credit Strategies Fund LP

Monthly Commentary: June 2023

a higher coupon rate, which will provide more certainty of the expected annual return from the portfolio by approximately 200 basis points.

Over the past decade, many companies took advantage of lower interest rates to lock in term debt at ultra low rates. Looking forward, we expect most companies will have higher funding costs when a maturity or funding need arises. Given the short average bond maturity of 5.08 years for high yield companies, we can expect the reset of coupons to market rates in a handful of years. Other fixed income asset classes like US mortgages and investment grade debt will take a much longer time frame to reset to market rates if we have an extended “higher for longer” environment.

**In this changing interest rate environment investors need to pay close attention to the duration of a debt instrument and be mindful of the annual coupon rate.** If we look at the investment grade debt market, the average coupon is 3.91% with an average maturity of 11.03 years, trading at an average price of \$90.6 to yield 5.45%. Given the volatility in interest rates and the long duration, investors have only the certainty of the 3.91% annual coupon, which is currently below the Fed funds rate, translating into a poor risk-reward from our perspective.

We have been very careful in managing interest rate risk by maintaining a portfolio duration approximately 1 year for most of 2023. Below we show our 1-year, 3-year, and 5-year annualized returns plus our 3-year and 5-year Sharpe ratio relative to the period ending June 30, 2022. **The table shows that we have been able to improve on three of our performance measurements over the past twelve months while reducing overall portfolio risk.** We continue to improve the risk-adjusted return of the portfolio during a very volatile interest rate and credit risk environment over the past few years, as demonstrated by our award-winning Sharpe ratio.

<i>NorthStream Credit Strategies Fund LP - Performance &amp; Sharpe Ratio</i>		
<b>Period ending June 30th</b>	<b>2022</b>	<b>2023</b>
1-YR Return	22.31%	11.44%
3-YR Return	19.74%	<b>28.51%</b>
5-YR Return	13.73%	<b>14.06%</b>
Sharpe Ratio 3-YR	1.38	<b>2.57</b>
Sharpe Ratio 5-YR	1.19	1.13

It is worth noting that the improvements in overall return and risk metrics have been achieved while maintaining a high degree of “dry powder” in order to seize opportunities during times of heightened volatility and price dislocations. Our portfolio structure currently offers a current yield of over 8%. As we head into the second half of 2023, we believe investors will continue to benefit from the strategy’s focus on risk management and high return-to-risk trades which have shaped the strategy’s award-winning results since inception.

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%	0.75%	1.10%	-	-	-	-	-	-	6.33%
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 June 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: 156.95%

Performance & Risk Metrics			
Return Since Inception	156.95%		
YTD	6.33%		
1-YR Return	11.44%		
Annualized Since Inception	14.07%		
% of Positive Months	79.07%		
Maximum Drawdown	-14.81%		
Annualized Standard Deviation	9.22%		
Sharpe Ratio <sup>1</sup>	1.34		
Correlation			
Index	XGB <sup>2</sup>	TSX	S&P500
Correlation	-19.56%	39.35%	24.49%
Upside Capture	75.89%	52.01%	34.44%
Downside Capture <sup>3</sup>	-118.90%	-16.09%	-17.67%

<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.

2022 CANADIAN HF AWARDS

### NorthStream Credit Strategies Fund LP

## WINNER OF THE 2022 CANADIAN HF AWARDS

### Credit Focused

Best 1 Year Return	Best 3 Year Return	Best 5 Year Return
<b>1st Place</b>	<b>1st Place</b>	<b>1st Place</b>
Best 3 Year Sharpe Ratio	Best 5 Year Sharpe Ratio	
<b>1st Place</b>	<b>1st Place</b>	

- 1 Year Return 22.31%
- 3 Year Sharpe Ratio 1.38
- 3 Year Return 19.74%
- 5 Year Sharpe Ratio 1.19
- 5 Year Return 13.73%

Awards are based solely on quantitative performance data to June 30 2022.

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