NorthStream Credit Strategies Fund LP

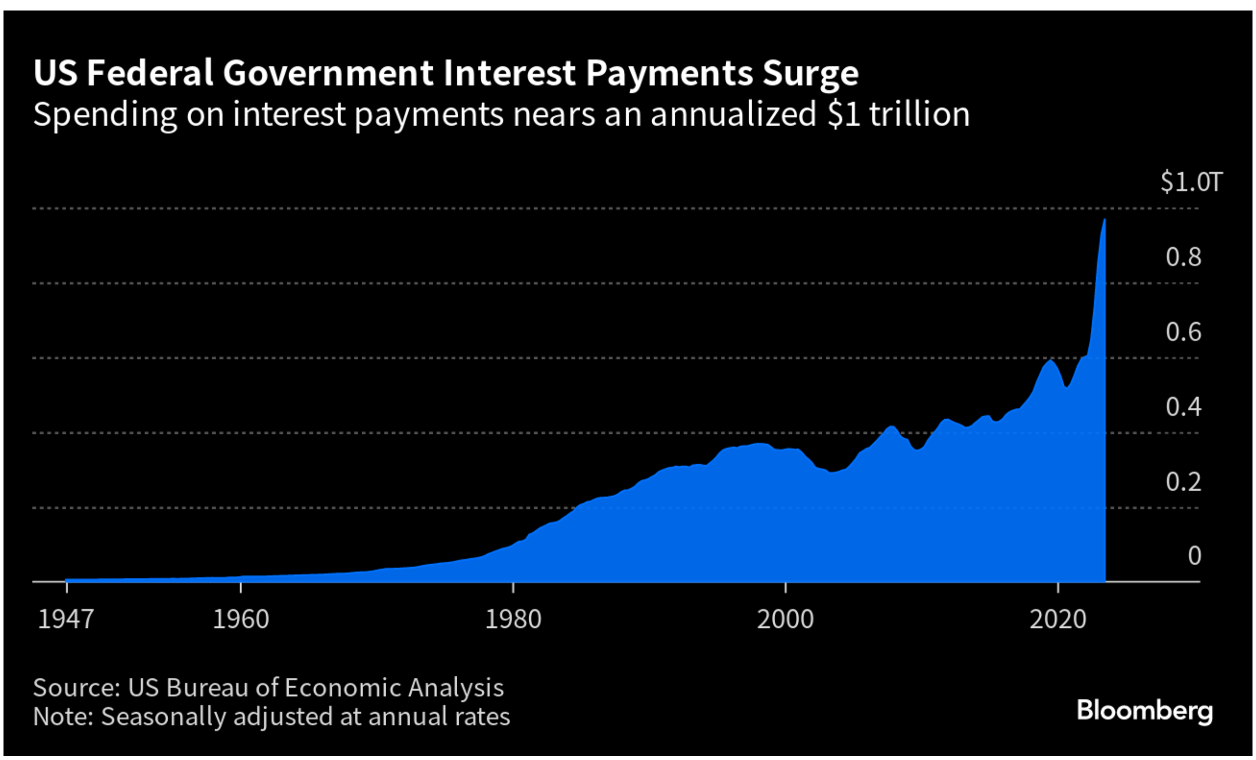
Monthly Commentary: July 2023

The NorthStream Credit Strategies Fund returned +0.46% for the month of July, +6.81% year-to-date and +13.03% for the last twelve months.

During the month, interest rates edged higher with the yield on the US 10-year treasury increasing from 3.84% in June to 3.96% at the end of July. This ascent in rates continues inching higher, inching closer to the prior peak of 4.24% recorded in October 2022.

Concurrently, the lift in yields coincided with Fitch's downgrade of the U.S. debt rating from AAA (the highest rating) to AA+, citing a "steady deterioration in standards of governance" as the reason for the downgrade. Fitch's actions follow the debt ceiling standoff two months ago that brought the U.S. close to a technical default. Notably, Fitch is the second ratings agency to remove the U.S.' top AAA rating, after Standard & Poor's did so in 2011 following a similar standoff then. That said, the recent downgrade is taking place in a very different market and macro backdrop compared with 2011, when interest rates were near zero, deflation risks were emerging, and the Euro area was suffering a sovereign debt crisis.

The U.S. downgrade serves as a stark indicator of how debt levels and interest rates have surged, particularly in the aftermath of the policy measures enacted in response to the Covid pandemic, not just in the U.S., but also across other advanced economies. According to projections by the U.S. Congressional Budget Office (CBO), the ongoing substantial primary budget deficit in the U.S. (which excludes interest costs) is anticipated to persist throughout the coming decade. Adding to this concern, is the cost associated with interest, which is on the rise due to the swift interest rate hikes implemented by the Federal Reserve, and according to CBO's estimations, reveal a significant uptick in net interest expenses for the Federal debt held by the public, soaring to $745 billion in the current year from the $345 billion mark observed in 2020. In the coming US government fiscal year, interest on the Federal government debt will approach a $1 trillion run rate.



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Over the past decade, many companies took advantage of lower interest rates to lock in term debt at ultra-low rates. Unfortunately, the US Treasury did not take advantage of these rates. Presently, it is estimated that around three-quarters of Treasuries are due for renewal within a five-year timeframe. Despite this, the CBO projects that the net interest rate paid on the national debt will hover at approximately 3% in the upcoming years, despite the fact that short-term bills and notes are currently yielding over 5%.

We believe the most likely outcome in this situation is a substantial government bill and bond issuance in the months and years ahead. These issuances will contribute to an increased supply of Treasuries at a juncture when the Federal Reserve is permitting bonds to expire from its balance sheet as a facet of its quantitative tightening strategy. These elements could trigger investors to seek higher term premiums or greater compensation to mitigate the risk associated with holding long-term government debt. Consequently, a scenario might arise where the most secure assets globally (long-term Treasuries) deviate from their customary role as defensive assets.

In this changing interest rate environment investors need to pay close attention to the duration of an asset class and the underlying credit exposures being taken. At NorthStream, we have been very careful in managing interest rate risk by maintaining a portfolio duration approximately 1 year for most of 2023. Furthermore, 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.

NorthStream Credit Strategies Fund LP - Performance & Risk Metrics

Period ending Jul 31st	2022	2023
1-YR Return	21.39%	**13.03%**
3-YR Return	18.96%	**28.27%**
5-YR Return	13.44%	**14.10%**
Sharpe Ratio 3-YR	1.32	**2.52**
Sharpe Ratio 5-YR	1.15	**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.

Thank you for your business and interest in our Fund. For more information, send us an email at info@northstreamcap.com or give us a call at 416-613-4652.

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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%	0.75%	1.10%	0.46%	-	-	-	-	-	**6.81%**
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 July 31, 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: 158.12%

Performance & Risk Metrics	
Return Since Inception	158.12%
YTD	6.81%
1-YR Return	13.03%
Annualized Since Inception	13.97%
% of Positive Months	79.31%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.17%
Sharpe Ratio[1]	1.33

Correlation			
Index	**XGB[2]**	**TSX**	**S&P500**
Correlation	-19.19%	39.14%	24.32%
Upside Capture	75.89%	51.38%	34.09%
Downside Capture[3]	-116.64%	-16.09%	-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.