NorthStream CAPITAL

NorthStream Credit Strategies Fund LP

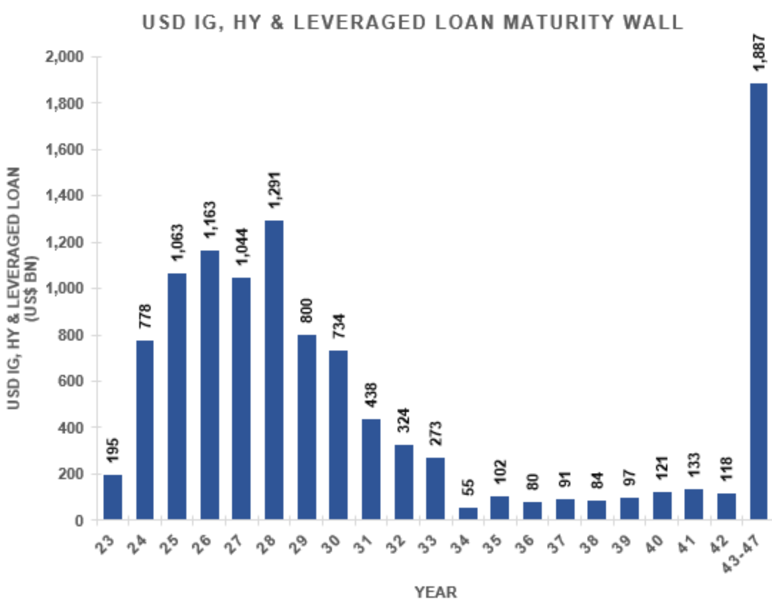
Monthly Commentary: August 2023

The NorthStream Credit Strategies Fund returned +0.81% for the month of August, +7.68% year-to-date and +15.48% for the last twelve months.

Interest rates continued to drift higher with the yield on US 10-year treasuries increasing from 3.96% at the end of July to a peak of 4.34% in late August. Although the US 10-year is only 6 basis points from its high, a recent Reuters poll of analysts held to their predictions that sovereign yields will drop over the coming year. A near 80% majority, or 23 of 29 analysts polled said yields on the 10-year note had already peaked in the current cycle.

Rather than speculate on whether rates have peaked, it is important to understand how the *higher for longer theme* will impact funding costs for borrowers. Monetary policy does not immediately impact companies and other borrowers if they have fixed rate debt and limited near term maturities. However, once the refinancing cliff hits it will create pressure in the credit markets causing the economy to weaken as companies are forced to shrink their activity and reduce headcount as interest expense escalates.

If we look at the debt maturity wall for North American credit markets in the table below, we see the combined debt maturities for the US investment grade, high yield and leveraged loans is equal to $778 billion in 2024 and remains at a run rate of over a trillion for the next four years. Over half of all the $10.9 trillion market value of corporate debt outstanding will need to be refinanced by 2028.

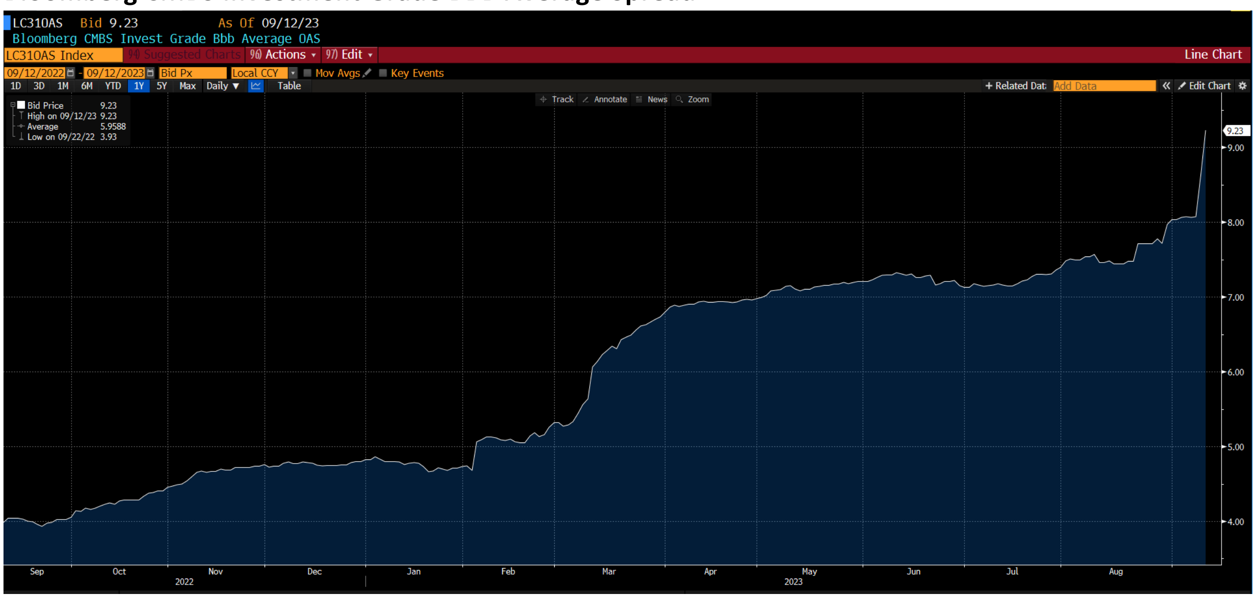


Source: Bloomberg, Goldman Sachs Global Investment Research, S&P Capital IQ LCD

The cost to borrow in the high yield bond market has risen by 250 to 300 basis points this year but most of the increased expense is due to higher interest rates rather than widening credit spreads. The high yield bond maturity wall for 2023 is quite small at less than 1% of the outstanding market, however 58% of all debt outstanding will need to be refinanced by 2028, potentially causing credit spreads to widen.

The market where credit spreads have noticeably widened is in the commercial mortgage market. Below 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 393 bps to a recent high of 923 bps. The credit spread on the BBB rated corporate bond index is currently 154 bps, indicating the expected probability of default on commercial real estate mortgages is much higher than similarly rated corporate debt.

Bloomberg CMBS Investment Grade BBB Average Spread



Source: Bloomberg

About $1.2 trillion of debt on US commercial real estate is “potentially troubled” because it’s highly leveraged and property values are falling, according to Newmark Group Inc. Offices are the biggest near-term problem, accounting for more than half of the $626 billion of at-risk debt that’s set to mature by the end of 2025, the brokerage estimates. Concerns are mounting that defaults will increase as property values fall and costs rise for landlords who need to refinance at higher interest rates. Overleveraged owners are often more motivated to stop payments than sink money into buildings with diminished prospects for returns. Blackstone Inc., Brookfield Corp. and Goldman Sachs Group Inc. are among investors that have defaulted or relinquished offices to lenders this year.

Newmark defines “potentially troubled” as properties where debt represents at least 80% of the real estate’s marked-to-market value, based on price indexes including Green Street’s. Banks, which have tightened lending since this year’s collapse of Silicon Valley Bank, carry the biggest share of at-risk debt, with $303 billion of potentially troubled loans maturing through 2025, according to Newmark.

The chart above illustrates how the relative size of near-term property debt maturities can impact credit spreads as shown in the CMBS BBB Index. Investors in corporate debt need to mindful of this potential impact when thinking of the debt maturity wall.

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. Deposits continue to leave banks for market-oriented alternatives like money market funds. Banks continue to tighten lending standards, dragging on smaller companies that depend on banks for financial services. Instead of raising deposit rates, banks are squeezing everyone with tighter lending standards and much wider spreads. **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%	0.75%	1.10%	0.46%	0.81%	-	-	-	-	**7.68%**
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%**

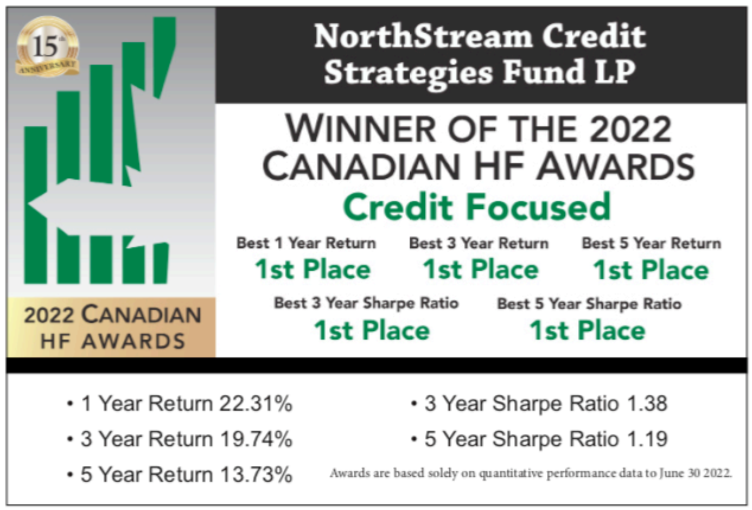
The NorthStream Credit Strategies Fund LP ("the Fund") launched on May 2, 2016. The monthly returns above are shown net of all fees and expenses and are based on the Fund's Class X Lead Series NAV. Monthly NAV and returns are calculated by SGGG Fund Services Inc. Past performance is not indicative of future results. Performance, risk metrics and correlations are as of August 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: 160.23%

Performance & Risk Metrics	
Return Since Inception	160.23%
YTD	7.68%
1-YR Return	15.48%
Annualized Since Inception	13.93%
% of Positive Months	79.55%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.12%
Sharpe Ratio[1]	1.33

Correlation			
Index	**XGB**[2]	**TSX**	**S&P500**
Correlation	-19.16%	39.15%	24.35%
Upside Capture	75.89%	51.38%	34.09%
Downside Capture[3]	-117.67%	-16.86%	-18.24%

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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