

The NorthStream Credit Strategies Fund returned -0.02% for the month of December, and +8.89% for 2023.

The December FOMC meeting delivered a few surprises including a pivot from the “*Higher for Longer*” narrative to a dovish stance that introduced the expectations for three rate cuts in 2024. The Fed changed its position from wanting to see inflation at 2% to consider cutting interest rates to stating, “It would be too late to wait for 2% to reduce tightening; you want to do that well before 2%”. The futures market is showing a 72.6% probability of the first 25 basis point cut in March. In addition to the increasingly accommodative Fed policy, substantial fiscal spending will assist in supporting the US economy in an election year.

The Fed’s target of three rate cuts is appropriate for a soft-landing environment where inflation is headed for 2% without any weakness in the economy. The futures market is anticipating **seven** 25 basis point rate cuts in 2024 which would suggest that inflation is expected to decline rapidly. The other outcome that necessitates seven rate cuts would be that the economy is noticeably weakening despite the accommodative US monetary and fiscal policy. The Fed’s goal of three rate cuts would still result in an inverted yield curve on the front end, however seven rate cuts would result in a positive slope for the yield curve. The yield curve inversion has lasted for 18 months which has been a fairly reliable indicator of a recession. If there are seven rate cuts in 2024 it will be due to weakness in the economy which is unlikely to be positive for risk assets.

Our portfolio positioning in 2023 was conservative as the risk of a recession was possible, however did not occur. Our portfolio duration was steady at approximately one year. Our long exposure ranged from 65% to 78% and our short exposure ranged from 20% to 27% during 2023. In 2022 our short positions contributed to the portfolio performance as credit spreads widened. In 2023 our short bond positions dampened volatility but had a modest impact on performance. Our short positions in REITS have remained steady despite the higher cost of financing commercial mortgage-backed debt.

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 466 bps to a recent high of 969 bps on January 8th. The credit spread on the BBB rated corporate bond index is currently 129 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

We are maintaining a defensive positioning with a portfolio duration of 0.9 years compared to a duration of 3.3 years for the high yield index and 6.75 years for the investment grade bond index. Presently we are focused on having ample liquidity and being prepared for the period where credit spreads widen if the futures market is correct in predicting seven rate cuts in 2024.

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%	0.68%	0.43%	0.03%	-0.02%	8.89%
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 December 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: 163.14%


Performance & Risk Metrics	
Return Since Inception	163.14%
YTD	8.89%
1-YR Return	8.89%
Annualized Since Inception	13.45%
% of Positive Months	79.35%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	8.94%
Sharpe Ratio ¹	1.28

Correlation			
Index	XGB ²	TSX	S&P500
Correlation	-19.46%	37.13%	22.83%
Upside Capture	65.96%	47.48%	31.78%
Downside Capture ³	-113.10%	-17.10%	-18.32%

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.



NorthStream Credit Strategies Fund LP

WINNER OF THE 2023 CANADIAN HF AWARDS

Credit Focused

Best 3 Year Return	Best 5 Year Return
1st Place	1st Place
Best 3 Year Sharpe Ratio	Best 5 Year Sharpe Ratio
2nd Place	1st Place

- 3 Year Return 28.51%
- 3 Year Sharpe Ratio 2.62
- 5 Year Return 14.07%
- 5 Year Sharpe Ratio 1.14

Awards are based solely on quantitative performance data to June 30 2023.