NorthStream Credit Strategies Fund LP

Monthly Commentary: March 2024

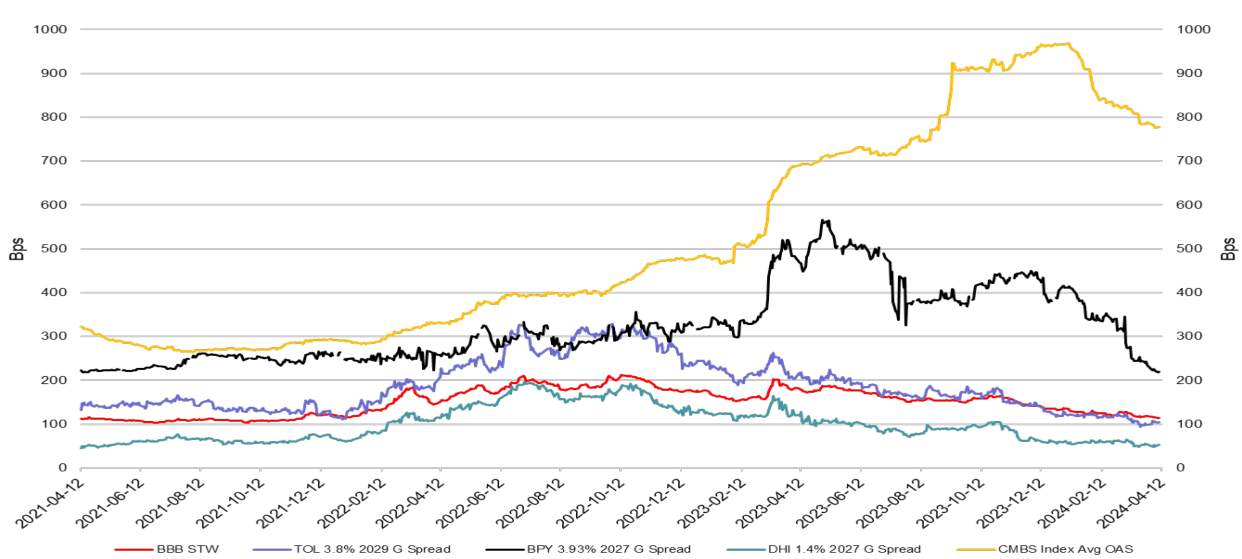
The NorthStream Credit Strategies Fund returned +0.21% for the month of March, and +5.77% for the last twelve months.

The combination of strong US growth and sticky inflation is causing a reacceleration of inflation this year. The last three US CPI reports have been above consensus causing the 3-month annualized core CPI to reach 4.5%, the highest level since May of last year. The annual rate of headline and core inflation now stand at 3.5% and 3.8%, respectively.

March retail sales rose by 0.7%, well above the forecast of 0.4%. Revisions to the prior month also took the headline advance up to 0.9% from 0.6%. Yields have been moving higher as the goldilocks narrative is being tested. The US 10 year has risen through 4.6%, returning to the level prior to the Fed dovish pivot in the fourth quarter of 2023. The futures market is no longer expecting rate cuts to begin in June with the first Fed rate cut now priced for September or later if inflation data remains elevated.

The investment grade and high yield bond markets have responded slowly to the evidence of higher inflation. Currently the US investment grade index is yielding 5.63%, a slight premium to the Fed funds rate. The BBB index (the lowest investment grade rating) is yielding 5.82% with a credit spread of 113 basis points, reaching its low for the past year. Looking at BBB rated bonds in the real estate sector, the bonds of homebuilder DR Horton are yielding 5.3% with a credit spread of 54 basis points and Toll Brothers bonds are yielding 5.6% with a credit spread of 103 basis points. The tighter credit spread for these two homebuilders suggests some lingering expectation of lower rates. The chart below shows the credit spread for the BBB index, homebuilders DR Horton and Toll Brothers. We have short positions in these two bonds given the asymmetrical return profile relative to the risk-free rate in a higher for longer interest rate environment. It is quite rare for the cost of a short position to have a positive carry as the coupons are 1.4% and 3.8% respectively. Currently the rebate or yield on the capital received from the bond short sale earns approximately 5% annually.

Spread to Worst – BBB Index, CMBS Index vs BBB Real Estate Bonds (Toll Bros/Brookfield/DR Horton)



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In a higher for longer environment, sectors like commercial real estate will experience higher funding costs. The spread on BBB rated commercial mortgage-backed real estate debt has tightened recently to 770 basis points from its peak of 969 basis points on January 8th. The NAREIT Implied Cap Rate for all sectors of REITS currently stands at 5.72. A funding rate well above the cap rate is a deterrent to transactions in the commercial real estate market, which presents a challenge for owners with near term debt maturities. Newmark, a real estate advisory and brokerage company, said an estimated $2 trillion of US commercial real estate debt maturing between this year and 2026 would have to be refinanced at much higher interest rates. According to the US Mortgage Bankers Association, $929 billion of commercial real estate debt will need to be repaid or refinanced this year alone. We believe our short unsecured bond positions in commercial real estate and homebuilders are low-cost hedges that provide very cost-effective protection for our long corporate bond positions.

NorthStream Credit Strategies Fund LP - Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.55%	0.14%	0.21%	-	-	-	-	-	-	-	-	-	0.90%
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 March 31, 2024. 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: 165.51%

Performance & Risk Metrics

Return Since Inception	165.51%
YTD	0.90%
1-YR Return	5.77%
Annualized Since Inception	13.13%
% of Positive Months	80.00%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	8.81%
Sharpe Ratio[1]	1.26

Correlation

Index	XGB[2]	TSX	S&P 500
Correlation	-19.03%	36.51%	22.14%
Upside Capture	65.79%	46.14%	30.67%
Downside Capture[3]	-109.97%	-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.