BRADDOCK INSIGHTS: RMBS OPPORTUNITY - CREDIT RISK TRANSFER SECURITIES

It is likely that institutional investors and investment bankers will view the 2015-2020 timeframe as the commencement of a long period of healthy issuance in the Residential Mortgage Backed Securities (RMBS) market. This market will be characterized by a wide variety of securities that touch many aspects of the U.S. housing and mortgage finance industries. Both the underlying collateral and the structural design of these securities benefit from the many lessons learned from the financial crisis over a decade ago. New regulations across mortgage origination and deal underwriting should ensure that RMBS products provide institutional and retail investors assets that meet their unique risk and return objectives.

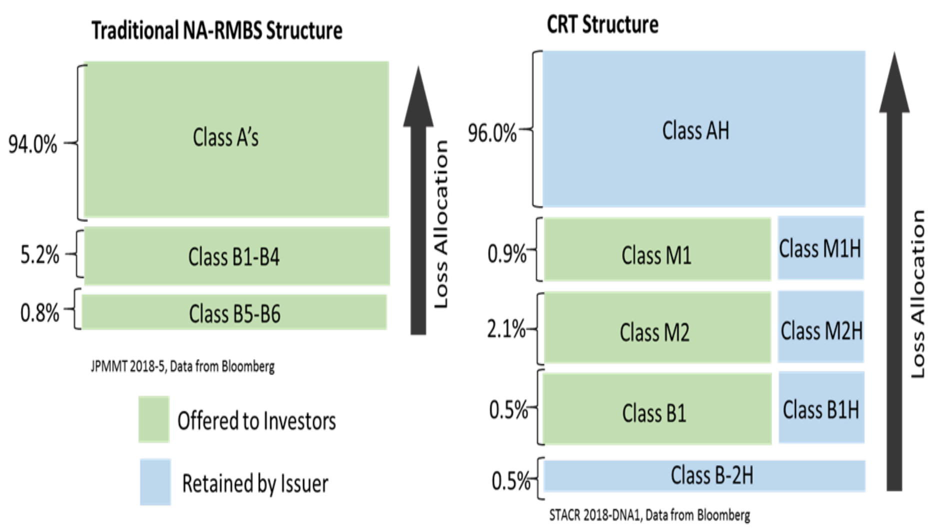
Credit Risk Transfer bonds (CRTs) are an example of a new RMBS product. These securities came to market in 2013 as a vehicle to transfer some of the residential mortgage credit risk from the government-sponsored entities (GSEs: Fannie Mae & Freddie Mac) to institutional investors. An important outcome as mortgage defaults that led to losses to the GSEs back in 2007, 2008 and 2009 were ultimately losses to the U.S. taxpayer.

The Federal Housing Finance Agency (FHFA) has instructed the GSE's to transfer a portion of their credit risk on 90% of their single family mortgage loan acquisitions. The CRT debt program is the primary financial vehicle utilized to fulfill this mandate while a large portion of the remainder is done through insurance/reinsurance transactions.

CRT: UNIQUE STRUCTURAL CHARACTERISTICS

We, at Braddock Financial, LLC, are impressed with many of the structural aspects of CRT securities. CRT bonds are backed by the same "GSE conforming" mortgages^ that are collateral for traditional Agency Mortgage Backed Securities (MBS). However, the typical MBS bond is paid a fixed rate coupon and the GSE assumes the credit risk of any defaulting mortgages. Therefore, the MBS investor only takes interest rate risk of the underlying pool of mortgages.

Conversely, CRT bonds are uncapped floating rate notes indexed to 1-month LIBOR. This creates bonds where investors are assuming the credit risk, but mitigating the interest rate risk of the underlying loans. Historically speaking, RMBS bonds with the combination of fixed rate mortgages as collateral and floating rate coupons on the bonds is unique. We believe this characteristic is particularly attractive as the Federal Reserve continues to remove monetary accommodation associated with the financial crisis.



Another unique characteristic is that Credit Risk Transfer securities allow the issuer to retain the vast majority of the bonds on their balance sheet. The issuer is simply looking to share its credit risk and can do this by offering only riskier Mezzanine (Class M1 & M2) and Subordinate bonds (Class B1), to the market as seen in the adjacent charts. This is different from traditional Non-Agency RMBS where the issuer sells Senior (Class As), Mezzanine (Class B1-B4) and subordinate bonds (Class B5-B6) in order to reduce the amount of assets on their balance sheet.

CRT: MORTGAGE CHARACTERISTICS

IMPROVED LOAN CHARACTERISTICS

	Freddie Mac 2005 Vintage	Freddie Mac CRT 2018 Vintage
Average FICO	724	747
Average Debt to Income Ratio	37%	36%
Borrowers with 50% or greater Debt to Income	16%	0%

Source: Freddie Mac, Barclays Research

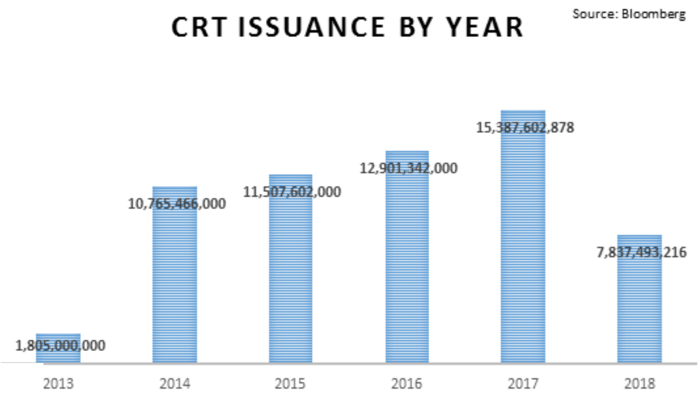
We believe the quality of these GSE mortgages which serve as collateral for the CRT Bonds is very impressive. Most importantly, the underwriting and loan origination process ensures that proper disclosures are made to borrowers, that the borrower is financially capable of repaying the loan, and that fraud probability to the mortgage is very low*. Additionally, the lenders make loan level Representations and Warranties (R&W) that allow the GSE to remove loans from the collateral pool in the future should it be proven they did not truly meet the underwriting standards.

CRT mortgages are made to borrowers who historically demonstrate low credit risk. The borrowers have an average FICO score near 750, debt-to-income ratios average mid 30%, and the borrower's income and employment are verified. These fully documented loans are 100% 30 year fixed rate mortgages, and as such the borrower will not face an increasing mortgage payment if U.S. interest rates increase.

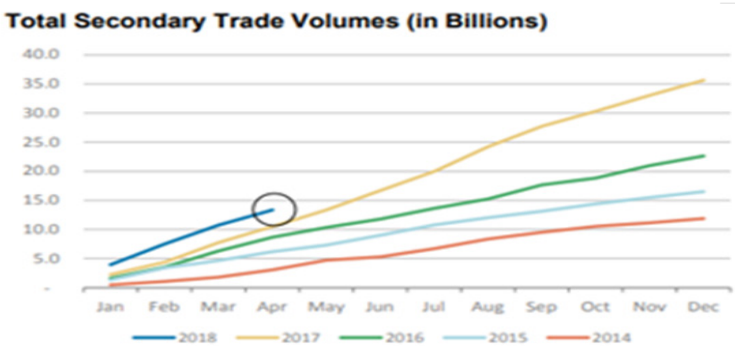
How is this different from 2006? Pre-financial crisis, many GSE mortgages were higher risk affordability products like Interest-Only loans and often underwritten using low documentation methods (such as stated income/stated assets). Also, the typical borrower was a higher credit risk (lower FICO credit score) than the typical borrower today.

CRT: MARKET DYNAMICS

Fannie Mae issues Connecticut Avenue Securities (CAS) while Freddie Mac issues Structured Agency Credit Risk (STACR) securities. The amount of new issuance within the CRT market has grown steadily since they first became available in 2013.



Another attractive feature of Credit Risk Transfer securities is the standardized nature of the product, which has increased both market participation and liquidity across the sector. As of May 2018, the CRT program had over 220 different investors and the investor base continues to grow. A current goal of the GSE's is to make the debt eligible to real estate investment trusts (REITs).



Source: Morgan Stanley Research, FINRA's TRACE

As shown in the graph, trading volumes have grown correspondingly to the growth in issuance and participation. It is worthwhile to note that several investment banks that underwrite the deals further support the markets by providing daily trading markets for CRT bonds.

CRT: RISK FACTORS AND CREDIT PERFORMANCE

Like traditional Non-Agency RMBS products, the ultimate performance of the securities is related to the amount of defaults in each deal's static pool of mortgages. Housing fundamentals are currently very positive given the combination of high quality mortgage underwriting, a shortage of entry level homes, and increasing home demand from the millennial generation. Regardless, risks do remain from potential changes in the growth rate of the U.S economy and/or exogenous risk's, such as national disasters, that may negatively affect mortgage default rates.

Credit performance across the CRT bonds originated from 2013 to today have reflected both the quality of the loan underwriting and strength in the U.S. housing market. Loan delinquencies have been very low and a large number of bonds from 2013-2016 have already been upgraded, or issued a rating if they were originally non-rated.

Sample of CRT Updates**

STACR Bond	Original Rating (M/F)	Current Moody's Rating	Current Fitch Rating
13-DN1 M2			
13-DN2 M2	NR/NR	NR	BB
14-DN1 M3	NR/NR	NR	
14-DN2 M3	/NR		BB-
14-DN3 M3	NR/NR	NR	BB
14-DN4 M3	NR/NR	NR	BB
15-DN1 M3	Ba1/	Aa3	
15-DNA 1 M3	B1/BB+	Ba1	A-
15-DNA 2 M3	B1/BB+	Baa1	
15-DNA 3 M3	B1/BB+		BBB-
16-DNA 1 M3	B1/BB+	Ba1	BB+
16-DNA 2 M3	B1/	Ba2	
16-DNA 3 M3	/B		BB-
16-DNA 4 M3	/B		B+
17-DNA 1 M2	/B+		B+
17- DNA 2 M2	/B+		B+
17-DNA 3 M2	/B+		B+
18-DNA 1 M2	/B		B

CONCLUSION

CRT securities provide investors an avenue to participate in the credit side of the GSE mortgage book while also aiming to benefit from the floating rate coupon which is backed by a pool of fixed rate mortgages. We believe, CRT securities create attractive investment opportunities from both an absolute and relative value to investors. At Braddock, we continually utilize our RMBS expertise to identify the bond in each CRT transaction that is most appropriate from a risk/return basis to the Braddock Multi-Strategy Income Fund.

^In the United States, a conforming loan is a mortgage loan that conforms to GSE (Fannie Mae and Freddie Mac) origination guidelines.
*Improved underwriting standards were partially a result of "TRID – Integrated Disclosure Rule", the "Truth In Lending Act", and "Ability To Repay" regulation.
**Sample of CRT upgrades from Moody's and Fitch Credit Ratings as of April 20th, 2018 on Freddie Mac STACR DN/DNA deals. Similar performance can be examined across the CRT sector (high and low Loan-to-Value deals, and Freddie Mac and Fannie Mae deals).

RISKS AND OTHER DISCLOSURES:

Before investing you should carefully consider the Braddock Multi-Strategy Income Fund's investment objectives, risks, charges and expenses. This and other information about the fund is in the prospectus and summary prospectus, a copy of which may be obtained by calling 800-207-7108 or by visiting the Fund's website at www.libertystreetfunds.com. Please read the Fund's prospectus or summary prospectus carefully before investing.

An investment in the Braddock Multi-Strategy Income Fund is subject to risk, including the possible loss of principal amount invested and including, but not limited to, the following risks, which are more fully described in the prospectus: **Mortgage-backed securities**: subject to "prepayment risk" (the risk that borrowers will repay a loan more quickly in periods of falling interest rates) and "extension risk" (the risk that borrowers will repay a loan more slowly in periods of rising interest rates). If the Fund invests in mortgage-backed or asset-backed debt securities that are subordinated to other interests in the same pool, the Fund may receive payments only after the pool's obligations to other investors have been satisfied. The risk of defaults is generally higher in the case of mortgage pools that include so-called "subprime" mortgages. **Real estate risk:** property values may fall due to increasing vacancies or declining rents resulting from unanticipated economic, legal, employment, cultural or technological developments. **CLO risk:** Collateralized Loan Obligations (CLOs) largely depend on the type of underlying collateral securities and the tranche in which the Fund invests. While CLOs are subject to the typical risks associated with debt instruments (i.e., interest rate risk and credit risk), the Fund is also subject to asset manager, legal and regulatory, limited recourse, liquidity, redemption, and reinvestment risks as a result of the structure of CLOs in which the Fund may invest. **Credit Risk:** securities held by the Fund could be subject to credit risk, including factors that may impair the credit rating and which may cause the value of the Fund's investment to decline. **Interest rate risk:** your investment may go down in value when interest rates rise, because when interest rates rise, the prices of bonds and fixed rate loans fall. Generally, the longer the maturity of a bond or fixed rate loan, the more sensitive it is to this risk. Falling interest rates also create the potential for a decline in the Fund's income. These risks are greater during periods of rising inflation. **High Yield ("Junk") bond risk:** junk bonds are speculative investments which involve greater risk of default, downgrade, or price declines, can be more volatile and tend to be less liquid that investment-grade securities. **Repurchase agreement risk:** may be viewed as loans made by the Fund which are collateralized by the securities subject to repurchase. The Fund's investment in repurchase agreements may be subject to market and credit risk with respect to the collateral securing the repurchase agreements. **Reverse repurchase agreement risk:** reverse repurchases provide the Fund with cash for investment purposes, which creates leverage and subjects the Fund to the risks of leverage. Reverse repurchase agreements also involve the risk that the other party may fail to return the securities in a timely manner or at all. **Liquidity risk:** the Fund may not be able to sell some or all of the investments that it holds due to a lack of demand in the marketplace or other factors such as market turmoil. The sales price the Fund could receive for any particular portfolio investment may differ from the Fund's valuation of the investment, particularly for securities that trade in thin or volatile markets or that are valued by the Fund using a fair value methodology turmoil. The sales price the Fund could receive for any particular portfolio investment may differ from the Fund's valuation of the investment, particularly for securities that trade in thin or volatile markets or that are valued by the Fund using a fair value methodology due to the fact that illiquid assets may be difficult to value. **Leverage risk:** as a result of borrowing or other investment techniques, the Fund may be leveraged. Leverage creates exposure to gains and losses in a greater amount than the dollar amount made in an investment. **Derivatives risk:** derivative instruments, futures contracts, options, swap agreements, and/or selling securities short involve risks different from direct investment in the underlying assets, including but not limited to: futures contracts may cause the value of the Fund's shares to be more volatile; the Fund may not fully benefit from or may lose money on option or shorting strategies; swaps may be leveraged, are subject to counterparty risk and may be difficult to value or liquidate. **Non-diversification risk:** as a non-diversified fund, the Fund may focus its assets in the securities of fewer issuers, which exposes the Fund to greater market risk that if its assets were diversified among a greater number of issuers. The Fund may not be suitable for all investors. We encourage you to consult with appropriate tax and financial professionals before considering an investment in the Fund.

The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment or tax advice. The views in this material were those of the Fund's Sub-advisor as of the date of publication and may not reflect its views on the date this material is first published or any time thereafter.

Distributed by Foreside Fund Services, LLC. www.foreside.com

HRC Fund Associates, LLC, Member FINRA/SIPC, and HRC Portfolio Solutions, LLC (together "HRC") solicit business for investment advisers ("IAs") through financial professional intermediaries. HRC is compensated by the IAs. Investors are not charged by the IAs (or products) for the cost of obtaining their accounts through this process, nor is there any differential in the level of advisory fees attributable to the solicitation arrangements with HRC. Some mutual funds represented by HRC are advised by affiliate Liberty Street Advisors, Inc. The information contained in this email and any attached documentation is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy. Views and opinions are those of the sender unless clearly stated as being that of HRC. Email transmissions cannot be guaranteed to be secure or error-free. Therefore, we do not represent that this information is complete or accurate and it should not be relied upon as such.