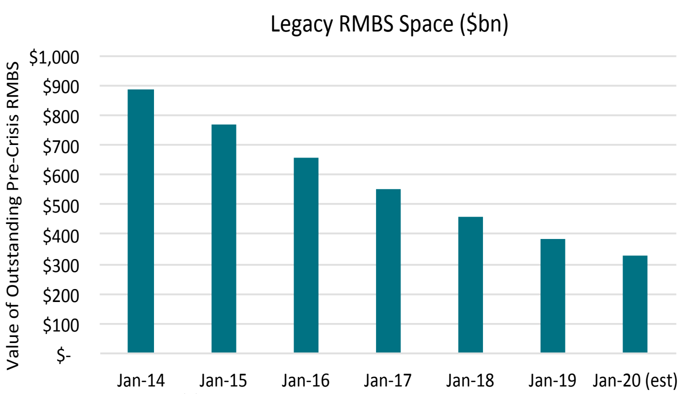
THOUGHTS ON MODERN AND LEGACY RMBS

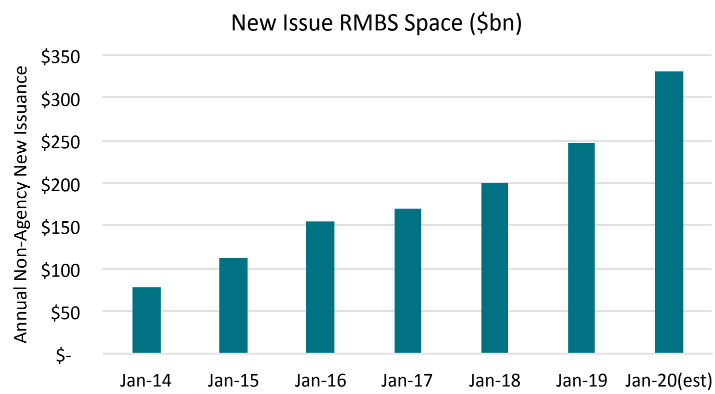
Since our founding back in 1994, Braddock Financial has managed over 15 different investment products across the structured credit space. In 2009, Braddock launched a number of strategies to take advantage of the dislocations caused by the financial crisis amongst Residential Mortgage Backed Securities (RMBS), including Legacy (issued pre-2008 crisis) RMBS and Legacy Subprime RMBS. Due to structural changes in the RMBS market over the last few years, Braddock has shifted its focus from Legacy RMBS to Modern (New Issue post-2008 crisis) RMBS. Braddock believes the Modern RMBS market provides many structural advantages, with more compelling opportunities from a risk vs. reward standpoint. With that being said, we want to explain why, after 10 successful years, we have moved largely out of the Legacy RMBS space and completely out of non-investment grade Legacy Subprime RMBS.

Legacy RMBS vs. Modern RMBS

$ Value of Bonds Outstanding (pre-2008), and New Issuance (post-2013)



Source: JP Morgan, data as of 7/1/2019



Source: JP Morgan, data as of 7/1/2019

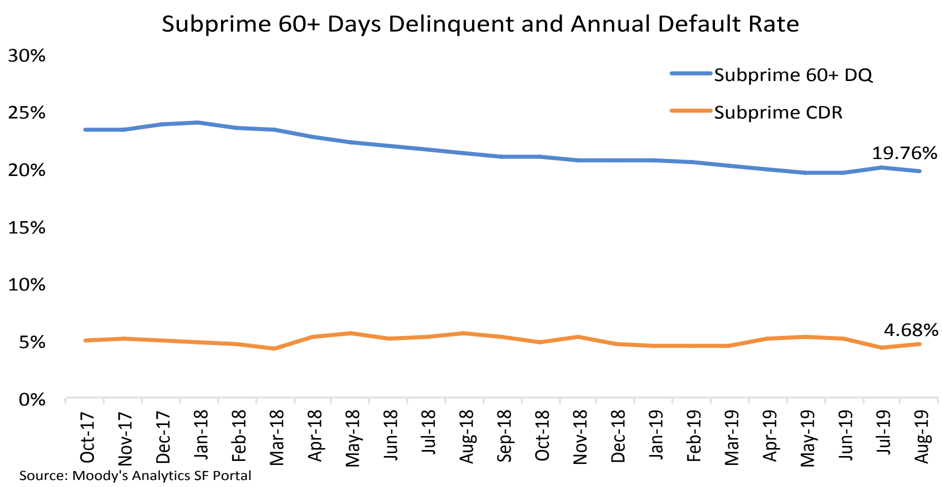
Modern RMBS -- Modern RMBS bonds are the byproduct of all the lessons learned in the housing crisis. Investors, regulators, bond rating agencies, and investment bankers collaborated to ensure that U.S. housing would never again cause an economic event that caused damage similar to the 1930's Great Depression. As one can see from the above, new issuance of Modern RMBS continues to grow. Modern RMBS securities have benefited from today's high quality underwriting standards and its full documentation process. This has translated to very low delinquency rates and faster mortgage prepayments. In comparison to 2007, today's mortgages, like those that are collateral for Credit Risk Transfer (CRT) and Non-Qualified Mortgage (Non-QM) Trusts, are made to borrowers with higher credit scores and lower debt-to-income (DTI) ratios. Today, mortgage originators are much more diligent in avoiding "risk layering." For example, if a borrower also has a lower credit score, the underwriter may not approve the loan if the borrower has a high DTI ratio or is asking for a cash-out loan. Additional improvements can also be seen in banking and lending regulations, and in the structure and legal protections of an RMBS Trust (including issuer risk retention). After five years of Modern RMBS origination, the value of these improvements cannot be overstated. The results to date are low delinquencies and defaults and high recovery rates on the loans that have defaulted.

Comparing Liquidity – Just 5 years ago the Legacy RMBS space had roughly $900 billion in outstanding paper. Today that number is closer to $300 billion, the majority of which still has some liquidity as it is higher up in the capital structure. However, as one can clearly see the pool of Legacy bonds continues to decrease rapidly as the underlying loans prepay or default. As Legacy RMBS bonds shrink in size and have a smaller number of loans as collateral, the number of potential buyers decreases. Cashflows on bonds with a small number of loans are choppy and have more credit risk related to turning economic cycles. Institutional investors need to put millions and billions of dollars to work! Therefore, they prefer Modern RMBS where bonds are larger and have secure cashflows and credit ratings that are an accurate reflection of risk. This has translated into better liquidity for Modern RMBS products as seen in the larger number of investors and the daily or weekly markets (bid /ask) made by the primary broker dealers (investment and money center banks). Freddie Mac, who sponsors credit risk transfer securities, has reported 213 institutional investors have been active in the program.[1]

1 FreddieMac, Structured Agency Credit Risk (STACR) as of 10/22/2019

Due to the small size of the market and the levered nature of the bonds, we find even less liquidity in non-investment grade mezzanine Subprime Legacy bonds. As of 9/30/2019, only $6.1 billion of these types of bonds remain (<2% of outstanding Legacy RMBS) down from $13 billion on 8/30/2018.[2] With average annual defaults in the subprime sector of 4.5%, and the normal high loss severity on the loans, many subprime mezzanine bonds are writing down principal each month.

Loan Performance – While Legacy RMBS and even Legacy Subprime borrower performance has improved since the crisis, over 19.7%[3] of Legacy Subprime borrowers are currently delinquent. This delinquency rate translates to annual default rates of over 4.68%.[4] In other words, even 10 years after the financial crisis, each month we continue to see some of these borrowers' default on their current obligations. It's also important to understand that these legacy RMBS Trusts went through the financial crisis, and thus the Trust's bonds have already incurred losses from prior defaults. In most cases when a loan incurs a default, a bond in the Trust takes a write-down.

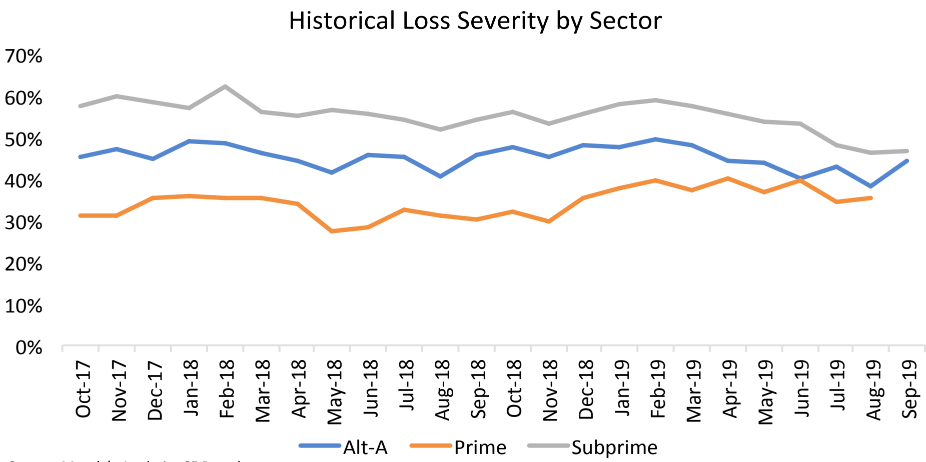


Low LTVs ≠ Less Risk - While many investors believe a low Loan to Value ratio (the % of a home's value that is mortgaged) reported on a legacy loan equates to less risk, Braddock wants to remind investors that this belief is dangerously simplistic. An LTV may appear low, but a low LTV does not imply an individual has paid their mortgage consistently or that the loan is safe from default. The truth is the loan servicers have modified many pre-crisis loans by reducing the mortgage rate and/or the principal owed to help subprime borrowers avoid foreclosure (70% to 80%+ of all subprime borrowers have been modified).[5] The reduced mortgage rate may cause monthly interest shortfalls to the subprime trust. Additionally, when the house is eventually sold, the loan servicer typically recoups the principal reduction from the modifications. In other words, reducing the principal left on the loan artificially lowers the LTV. These concessions to delinquent borrowers can have a negative impact to the economic value of a RMBS trust.

There are also many other metrics that need to be considered beyond a low LTV, such as if a loan is already in default, has the loan servicer advanced the borrower's principal and interest (P&I) to the subprime trust? In legacy RMBS, it is standard practice to advance P&I until the loan is deemed unrecoverable and the loan servicer will recoup these funds at loan liquidation (sale of the home after borrower is foreclosed upon). Simply put, if a bond backed by these mortgages is trading below par 10 years after the financial crisis, there is probably a reason.

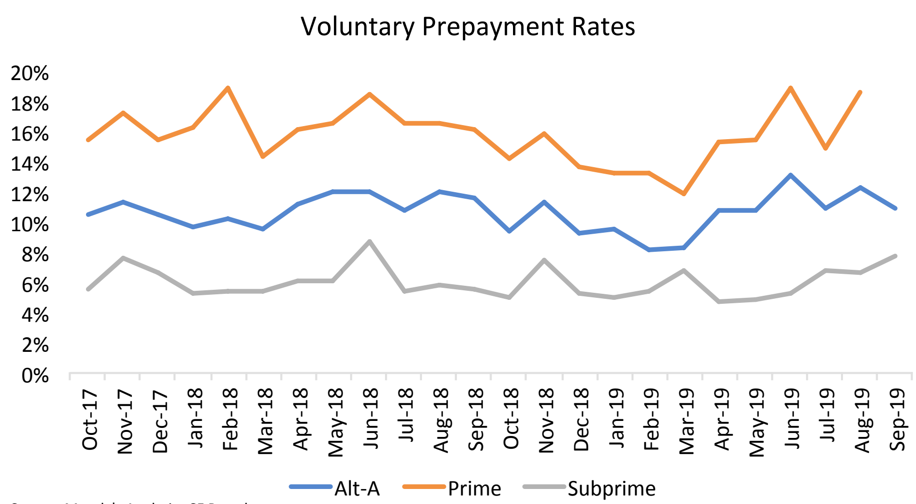
2 Amherst Pierpoint's Non-Agency Mortgage Monthly Monitor (8/2018 and 9/2019 reports)
3 Moody's Analytics as of 9/30/2019
4 Moody's Analytics as of 9/30/2019
5 JPMorgan September 2019 Remit Performance Reports, Amherst Pierpoint's Non-Agency Mortgage Monthly Monitor

Loss Severity– When an RMBS borrower defaults on their mortgage, the RMBS trust incur losses. Those losses vary based on the underlying credit quality of the borrower and range from an average loss in the Legacy space of 35% for Prime borrower defaults (orange line in chart below) to as much as an average loss of 47% for Legacy Subprime borrowers (gray line in the chart below). The reported low average LTV in many legacy RMBS trust has not stopped these losses from occurring. While this applies to loans of all sizes, it is especially harsh on smaller loans. The reason is that these losses occur during liquidation and the fees to lawyers, service providers, real estate agents, bankers, etc. applied over a smaller loan results in a higher loss ratio.



Source: Moody's Analytics SF Portal

Borrower Credit Quality – As mentioned before, Modern RMBS is subject to modern underwriting standards. As such the credit quality of the underlying borrowers is largely improved when compared to Legacy RMBS. For example, the average FICO score of Subprime Legacy borrowers is approximately 650,[6] which on average is not high enough to qualify for a conforming or non-qualified mortgage with today's strict underwriting standards. According to TCW, 20% of outstanding Subprime borrowers have a FICO score of less than 550.[7] Meaning they regularly become delinquent or default on their debts. These low FICO scores may lock the borrower in his/her current mortgage and may put the Trust at risk to future recessions and the higher default probability of Subprime Legacy borrowers. This can be seen in the Subprime sectors low annual prepayment rate of 8%. Simply put, these borrowers who are paying an average mortgage rate of 4.85%[8] generally can't refinance and must remain in their current loan. In contrast, Modern RMBS, such as Credit Risk Transfer securities, that have a similar average mortgage rate to Subprime's 4.85% are currently prepaying at annual rates between 20-30%.[9]



Source: Moody's Analytics SF Portal

6 TCW Mortgage Market Monitor, September 2019
7 TCW Mortgage Market Monitor, September 2019
8 Moody's Analytics Structure Finance Portal as of 9/30/2019
9 Barclays Residential Credit: CRT short term prepayment projections as of 9/30/2019

Summary - We at Braddock are encouraged by the massive transformation that has occurred within the mortgage financing industry over the past decade. Stricter underwriting standards, improved consumer credit and a strengthening economy have all lead to a more efficient and healthy mortgage market. Legacy RMBS and Legacy Subprime RMBS were the creation of years of very poor underwriting standards where the "volume not quality"-based incentive business created billions of dollars of bad loans. We are glad to see those days behind us. We appreciated the opportunity to invest in these Legacy bonds during the recovery and our investors have enjoyed the returns created. Over the past several years, we have substantially reduced our exposure to Legacy RMBS and moved the portfolio into Modern RMBS. We believe Modern RMBS benefits from the current favorable U.S. housing fundamentals and today's high-quality mortgage underwriting standards. We look forward to managing a mutual fund portfolio that currently invests in what we believe to be higher quality and better structured securities.

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.

The Fund commenced investment operations on December 31, 2015, after the conversion of a limited partnership Account, Braddock Structured Opportunities Fund Series A, L.P., which commenced operations on 7/31/2009, (the "Predecessor Account"), into shares of the Fund's Institutional Class. Information portrayed in the performance table and growth chart prior to December 31, 2015 is for the Predecessor Account. The Fund's objectives, policies, guidelines and restrictions are in all material respects equivalent to those of the Predecessor Account. The Predecessor Account was not registered under the Investment Company Act of 1940, as amended (the "1940 Act"), and therefore was not subject to certain restrictions imposed by the 1940 Act on registered investment companies and by the Internal Revenue Code of 1986 on regulated investment companies. If the Predecessor Account had been registered under the 1940 Act, the Predecessor Account's performance may have been adversely affected.

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

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 advice. The views were those of Braddock Financial ("Braddock"), the Fund's sub-advisor, as of the date of publication and may not reflect its views on the date this material is first disseminated or any time thereafter. The views regarding Legacy RMBS are about the space in general to help explain why Braddock has focused its portfolio more on Modern RMBS. It is not an advice or opinion as to whether any particular Legacy RMBS position, or portfolio containing Legacy RMBS, is an appropriate investment.

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