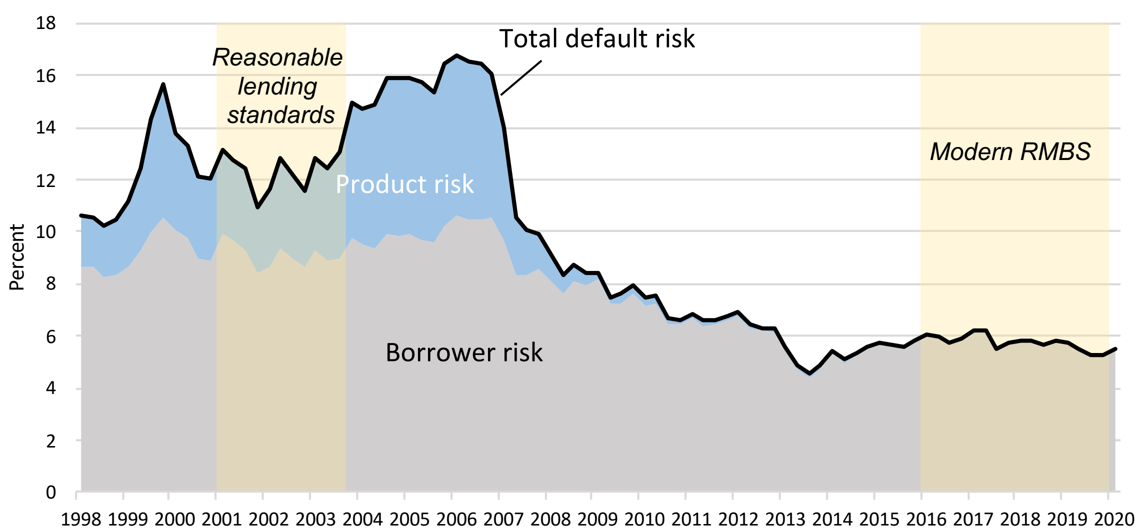
MODERN AND LEGACY RMBS IN A PANDEMIC ECONOMY

Since our founding 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 largely moved out of the Legacy RMBS space and completely out of non-investment grade Legacy Subprime RMBS.

Modern RMBS: Modern RMBS bonds are the byproduct of all the lessons learned in the Housing Crisis, which saw home prices fall by more than 27% during a 5.5 year period[1]. Investors, regulators, bond rating agencies, and investment bankers collaborated to ensure that the U.S. housing sector would never again cause such severe economic damage. The primary driver of the Housing Crisis was poor mortgage underwriting that created millions of Low FICO, High Loan-to-Value (LTV) borrowers who simply were not economically secure enough to be homeowners. As a historically high amount of these borrowers could not perform on their mortgages, the housing market experienced a supply glut from the ensuing foreclosure sales.

Modern RMBS securities, in contrast, have benefited from strict underwriting and full borrower documentation. The loans backing Modern RMBS products, such as Jumbo "A" Mortgages (Prime 2.0), Conforming Mortgages (Credit Risk Transfer, Mortgage Insurance Linked Notes) and Non-Qualified Mortgages (Non-QM RMBS), are made to borrowers with higher credit scores, lower LTVs and lower Debt-to-Income (DTI) ratios compared to the pre-Housing Crisis loans in Legacy RMBS. Mortgage originators are also much more diligent to avoid "risk layering." For example, if a borrower has a low credit score, the underwriter may not approve the loan if the borrower also has a high DTI ratio or is asking for a cash-out loan. Further improvements can be seen in banking and lending regulations, as well as the structural and legal protections of Modern RMBS Trusts. For example, many Modern RMBS issuers retain a portion of the risk (risk retention) that provides "skin in the game" and helps align the interests of issuers and investors. Given the risks associated with the Covid-19 economy, the value of these improvements cannot be overstated.

Default Risk Taken by the Mortgage Market, 1998Q1-2020Q1



Source: Urban Institute

The chart above measures the risk that a newly originated loan will go 90 days or more delinquent during its life and is separated into borrower risk and product risk. Both borrower and product risk have declined significantly since the Housing Crisis as lenders have tightened their underwriting standards and are less willing to offer loans

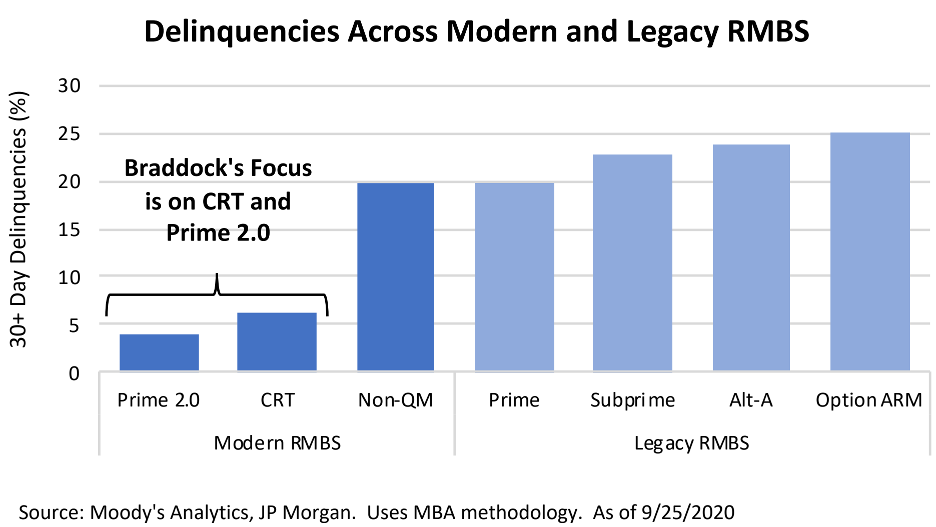
1 S&P Case-Shiller National Home Price Index (Not Seasonally Adjusted). Published 8/25/2020, as of 6/30/2020

with riskier terms, such as negative amortization or interest-only features. Standard fixed-rate, fully-amortizing 15-30 year mortgages comprise the vast majority of the current mortgage market.[2]

Today's Covid-19 Environment: Braddock understands that the economic slowdown and increased unemployment caused by Covid-19 will have an impact on the US Housing Market. To mitigate today's risks, RMBS investors need to look closely at both collateral quality and bond structure. Given the availability of forbearance programs and the mortgage refinancing opportunity afforded by record-low mortgage rates, Braddock believes Modern RMBS are in a superior position to weather this Covid-19 environment.

Forbearance: Pandemic mortgage forbearance allows borrowers to temporarily stop paying their monthly mortgage payment without fear of reprisals: i.e. negative effect on personal credit reports and the start of the home foreclosure process.

Braddock believes, and has observed through lower reported forbearance utilization rates, that the higher quality borrowers in Modern RMBS are less likely to need forbearance and more likely to successfully exit forbearance and return to performing on their mortgages after this hardship has passed, especially since pandemic job losses have been concentrated in the lower-wage industries of leisure and hospitality and retail services[3]. We are already seeing evidence of this trend, with conventional mortgage forbearance rates falling for 16 consecutive weeks since their peak in late May[4]. Additionally, Braddock has favored Modern RMBS with lower forbearance and delinquency rates like Credit Risk Transfer (CRT), Mortgage Insurance Linked Notes (MILN) and Prime 2.0 (RMBS 2.0 below).

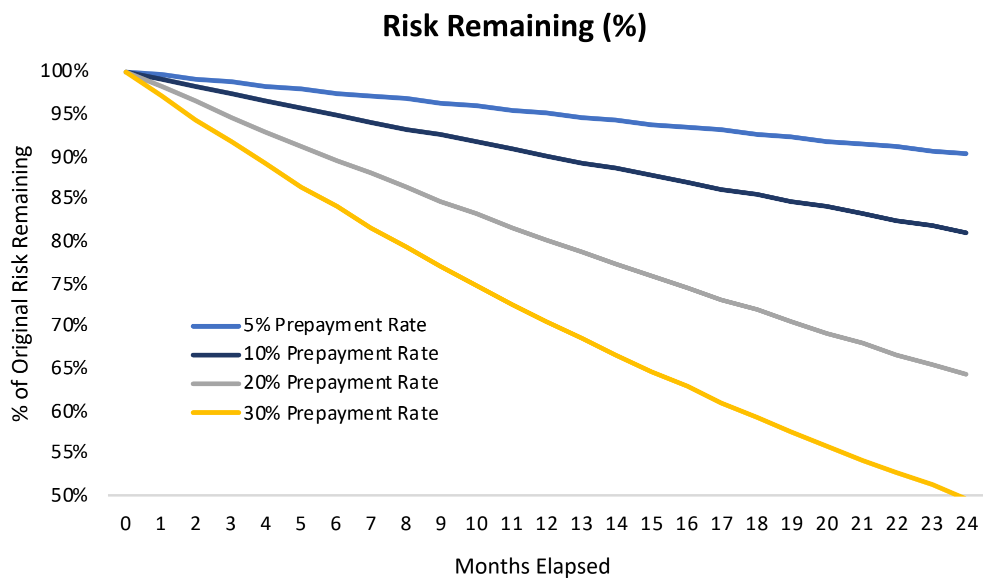


The CARES act mandates that Covid-19 affected borrowers with Conforming Mortgages[5], the mortgages backing CRT and MILN, receive 6-12 months of mortgage forbearance. This forbearance period is longer than the typical 3-6 months forbearance period that loan servicers are providing for private label borrowers (like Legacy RMBS) and should allow conforming mortgage borrowers greater opportunity to regain their financial footing.

Importantly, CRT and MILN structures also avoid potential bond principal and interest cash flow disruptions that may occur from borrowers not making their mortgage payments during forbearance. Some Legacy Subprime RMBS servicers have avoided advancing missed principal and interest payments from borrowers with a Covid-19 hardship, which can lead to cash flow short falls for the Trust[6].

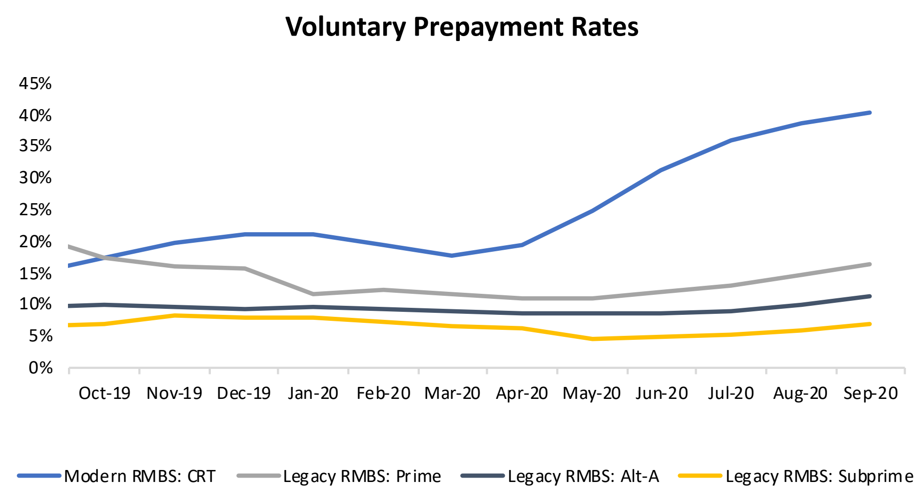
2 Urban Institute. As of 9/30/2020
3 Bureau of Labor Statistics. Published 9/18/2020, as of 8/31/2020
4 Mortgage Bankers Association. Published 9/28/2020, as of 9/20/2020
5 Mortgages guaranteed by Fannie Mae and Freddie Mac.
6 Bank of America. As of 7/31/2020

Mortgage Refinance Rates: When considering RMBS credit risk, it is important to understand that the total potential risk to investors from a specific RMBS Trust is directly attributable to the amount of loans remaining in that Trust. When borrowers refinance into a more affordable loan, a positive externality is that the existing loan is repaid and exits the Trust, reducing the credit risk for the RMBS trust that held the mortgage. Two years of a 30% annual prepayment rate reduces the total potential risk in the Trust by nearly 50%.



Source: Braddock Financial. Assumes constant prepayment at the specified rate and no defaults.

The Federal Reserve's reduction of interest rates has led to the lowest mortgage rates in U.S. history, and a significant portion of the high-quality borrowers that back Modern RMBS are taking advantage of the opportunity to lower their monthly payments. Even with lenders tightening their credit standards amid Covid-19, Modern RMBS trusts are still experiencing high prepayment rates while lower quality borrowers in Legacy RMBS are not benefiting from today's historically low mortgage rates.



Source: Moody's Analytics SF Portal. As of 9/25/2020

Black Knight, a mortgage data and services firm, reports that over 19 million homeowners have good FICO scores, 20% equity in their homes, and 75 basis points of refinance incentive[7]. Due to these characteristics, Braddock expects the current refinancing trend to continue to benefit both homeowners and Modern RMBS trusts well into 2021.

7 Black Knight. As of 9/11/2020

Modern RMBS Offers Higher Quality Mortgage Credit[8] :

	CRT	Legacy Subprime
FICO Score	752	~650
HPI LTV	62.2%	52.3%
Amortized LTV	75.0%	63.7%
Voluntary Prepayment Rate (3m VPR)	40.3%	6.7%
60+ day delinquency	5.1%	21.4%
Modified Loans	3.9%	77.2%
Default Rate (3m CDR)	0.0%	3.7%
Loss Severity (3m SEV)	13.1%	59.1%
Average Loan Size ($)	208,913	131,217

Low LTVs ≠ Less Risk: While many investors believe a low LTV ratio (the percentage 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. A LTV may appear low, but this reported LTV does not imply a borrower has paid their mortgage consistently or that the loan is safe from default.

The truth is loan servicers have modified many pre-housing 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)[9]. The reduced mortgage rate may cause monthly interest shortfalls to the subprime trust and while principal reductions may reduce the loan balance reported to investors, it may not reduce the amount the borrower actually owes. When the house is eventually sold, the loan servicer typically looks to recoup the principal reduction from the modifications. In other words, reducing the principal balance with a loan modification 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 LTV, such as: is the loan already in default, has the loan servicer advanced the borrower's missed principal and interest (P&I) payments to the Legacy RMBS investors? In Legacy RMBS, it is standard practice to advance P&I until the loan is deemed unrecoverable and the loan servicer will then recoup these funds at loan liquidation (sale of the home after borrower is foreclosed upon). This increases the loss severity on a liquidated loan. Simply put, if a bond backed by these mortgages is trading below-par more than 10 years after the financial crisis, there is probably a reason.

Loss Severity: When a borrower defaults on their mortgage, the RMBS trust holding that loan can incur losses and those losses typically vary based on the underlying credit quality of the borrower. In Legacy RMBS, average losses range from 20-60% for Prime borrowers to as high as 60-80% for Subprime borrowers[8]. These are very high losses for loans secured by a first lien on housing and draw into question the veracity of the low LTVs reported in Legacy RMBS. For example, a Subprime loan with a 52% current LTV and a loan loss of 59% implies that Legacy Subprime RMBS investors were only able to recover less than 22% of the home's current market value. While this applies to loans of all sizes, loss severities tend to be especially harsh for smaller loans. Foreclosing on a loan is an expensive process and the fees to lawyers, service providers, real estate agents, bankers, etc. are applied over a smaller loan which results in a higher loss ratio.

These large loss severities infer the reported low LTV may fail to capture the current condition of the home or expenses associated with non-performing mortgages that would need to be recouped before Legacy RMBS investors are entitled to any recoveries.

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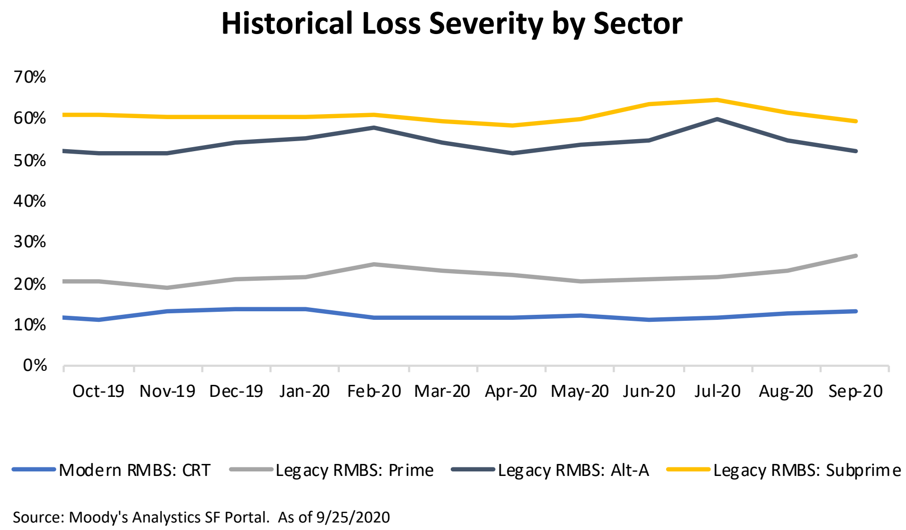
8 Moody's Analytics. As of 9/25/2020
9 Amherst Pierpont. As of 8/25/2020



Borrower Credit Quality Matters: As mentioned before, Modern RMBS is subject to modern underwriting standards. As such the credit quality of the underlying borrowers is greatly improved when compared to Legacy RMBS. For example, the average FICO score of Subprime Legacy borrowers is approximately 650, which on average is not high enough to qualify for today's conforming low rate mortgage[10]. Additionally, approximately 15% of Subprime borrowers have a FICO score of less than 550[11]. This indicates they regularly become delinquent or default on their debts. These low FICO scores can lock the borrower into his or her current mortgage and may expose the Legacy Subprime RMBS Trust to longer-term pandemic risks. This can be seen in the Subprime sector's low annual prepayment rate of 6%, despite the average Subprime RMBS borrower paying an average mortgage rate of 4.85%[9]. Simply put, many of these borrowers have been shutout of the current mortgage market and since they generally can't refinance their default risk remains with the Legacy Subprime RMBS Trust.

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 and improved consumer credit conditions have been critical to creating a more efficient and resilient housing and mortgage market. Current indications of home inventories, home prices and forbearance utilization in the pandemic signal that the housing market is well positioned to weather the economic downturn. In order to find the best opportunities in the RMBS market, Braddock will continue to focus on bonds that offer both structural and collateral quality benefits.

10 Moody's Analytics. As of 9/25/2020
11 CoreLogic, Equifax. As of 8/25/2020

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 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.

Before investing you should carefully consider each Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus and summary prospectus, a copy of which may be obtained by calling 800-207-7108 or by visiting each Fund's Prospectus and Regulatory Documents tab on this website. Please read the prospectus or summary prospectus carefully before investing.

RISKS AND OTHER DISCLOSURES:

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: **Market Turbulence Resulting from COVID-19.** The outbreak of COVID-19 has negatively affected the worldwide economy, including the U.S. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund. **Valuation:** From time to time, the Fund will need to fair-value portfolio securities at prices that differ from third party pricing inputs. This may affect purchase price or redemption proceeds for investors who purchase or redeem Fund shares on days when the Fund is pricing or holding fair-valued securities. Such pricing differences can be significant and can occur quickly during times of market volatility. **Mortgage-backed securities:** subject to prepayment risk, "extension risk" (repaid more slowly), credit risk, liquidity, and default risks**. Liquidity:** 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 it may only be able to sell those investments at a loss. Liquid investments may become illiquid or less liquid after purchase by the Fund, Illiquid investments may be harder to value, especially in changing markets. **High Yield ("Junk") bond**: involve greater risk of default, downgrade, or price declines, can be more volatile and less liquid than investment-grade securities. **Sector Focus**: focus may present more risks than if broadly diversified. **Fixed income/interest rate:** Generally, fixed income securities decrease in value if interest rates rise, and increase in value if interest rates fall. **Real estate market:** property values may fall due to various economic factors. **Non-diversification:** focus in the securities of fewer issuers, which exposes the Fund to greater market risk than if its assets were diversified among a greater number of issuers**. Collateralized Loan Obligations:** subject to interest rate, credit, asset manager, legal, regulatory, limited recourse, liquidity, redemption, and reinvestment risks. **Repurchase agreement:** may be subject to market and credit risk. **Reverse repurchase agreement:** risks of leverage and counterparty risk. **Leverage:** The use of leverage may magnify the Fund's gains and losses and make the Fund more volatile. **LIBOR:** Many financial instruments use a floating rate based on the London Interbank Offered Rate ("LIBOR"), which is expected to expire by the end of 2021. Any effects of the transition away from LIBOR could result in losses. **Derivatives:** derivative instruments (e.g. short sells, options, futures) involve risks different from direct investment in the underlying assets, including possible losses in excess of amount invested or any gain in portfolio positions.

The views expressed in this material reflect those of the Fund's Sub-Advisor as of the date this is written and may not reflect its views on the date this material is first published or anytime thereafter. These views are intended to assist shareholders in understanding the Fund's investment methodology and do not constitute investment advice. This material may contain discussions about investments that may or may not be held by the Fund. All current and future holdings are subject to risk and to change.

The **S&P Case-Shiller National Home Price Index** is a composite of single-family home price indices for the nine U.S. Census divisions and is calculated monthly. **Bloomberg Barclays Aggregate Bond Index** measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. The **ICE Bank of America Merrill Lynch U.S. Cash Pay U.S. High Yield Index** tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating, at least 18 months to final maturity at the time of issuance, at least 1 year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. It is not possible to invest in an index.

Cash Flow: The total amount of money being transferred into and out of a business, especially as affecting liquidity. **Investment Grade:** Investment grade indicates that a bond presents a relatively low risk of default. Non-investment grade bonds involve greater risks of default. **Basis points:** one hundredth of one percent, used chiefly in expressing differences of interest rates. **Credit Risk Transfer Bonds (CRTs):** are a vehicle to transfer some of the residential mortgage credit risk from the government-sponsored entities (GSEs: Fannie Mae & Freddie Mac) to institutional investors. **Non-Qualified Mortgage bonds (Non-QM):** are securities that came to market in 2016 as a vehicle to finance mortgages to credit worthy borrowers who fall outside the criteria for a "Qualified or Conforming Mortgage." **Prime 2.0:** RMBS backed by mortgages to prime borrowers issued post-2008. Prime or "A" borrowers are generally among the best tier of borrowers, with high credit scores and/or significant financial resources. The mortgages may exceed the conforming balance limits established by Fannie Mae and Freddie Mac. **Alt-A:** Pre-Housing Crisis mortgages that typically used alternative or limited borrower documentation. **Option ARM:** Pre-Housing Crisis adjustable rate mortgage that allowed borrowers to choose from several possible monthly payment choices. **FICO Score:** A measure of consumer credit quality that typically ranges from 300-850. Higher scores indicate more creditworthy borrowers. **HPI LTV:** Loan-to-value updated based to account for home price changes since loan origination and the current balance of the loan. **Amortized LTV:** Loan-to-value updated based upon the current balance of the loan

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