# BRADDOCK MULTI-STRATEGY INCOME FUND



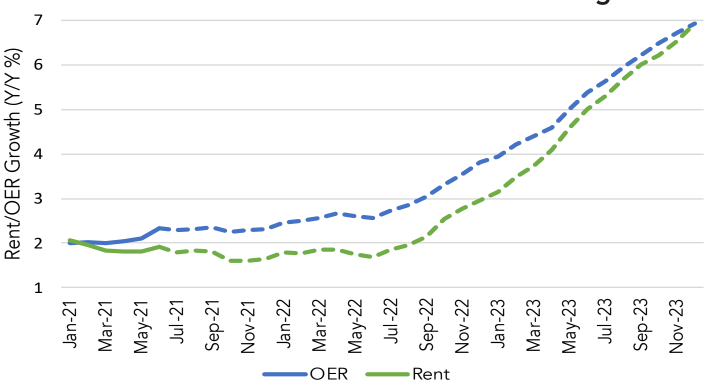
## THIRD QUARTER 2021 COMMENTARY

The Braddock Multi-Strategy Income Fund's (the "Fund") Institutional Share Class posted a +1.15% quarterly return and ended the quarter with a distribution yield of +3.91%. The Fund has returned +5.47% year-to-date, outperforming the Bloomberg Barclays Aggregate Bond Index's -1.55% and the ICE BofAML U.S. Cash Pay High Yield Index's +4.55%. During the third quarter, volatility in the US credit markets was notably more subdued than volatility in equity markets worldwide.

The third quarter of 2021 experienced a lull in the pace of the post-pandemic recovery caused by a conflux of issues related to Covid-19's Delta variant and economic road bumps spanning employment constraints, consumer demand and supply chain bottlenecks. With the ending of the government's extended unemployment benefits and the falling cases of Covid-19, Braddock believes the recovery can regain positive momentum. This growth, driven by the demand for hiring by employers to fill a significant number of job openings (10.4 million[1]) and strong consumer balance sheets, should be sustainable throughout 2022 and be a counter-balance to the inflationary pressures the economy is experiencing.

While employment has not reached the Federal Reserve's (the "Fed") goals, the Fed is aware of the pace of growth in the economy and the potential for "more than transitory" inflation[2]. As a result, the Fed has signaled the tapering of U.S. Treasury and Mortgage Backed Securities (MBS) purchases "could come as soon as the next meeting" in November[3]. Imminent tapering, along with market expectations for one or two Fed Funds Rate hikes to begin in late 2022, increases the risk of rising interest rates and reduces the ability for traditional fixed income products to meet investors' fixed income return targets. In contrast, Braddock believes the Fund's Modern Residential Mortgage-Backed Securities (RMBS)[4] and floating rate strategy is well positioned for potential rising rates while also providing fixed income investors a tactically managed fund that may mitigate this primary challenge facing traditional fixed income.

**Rent and OER Inflation Forecasts Indicate Rising Rates**



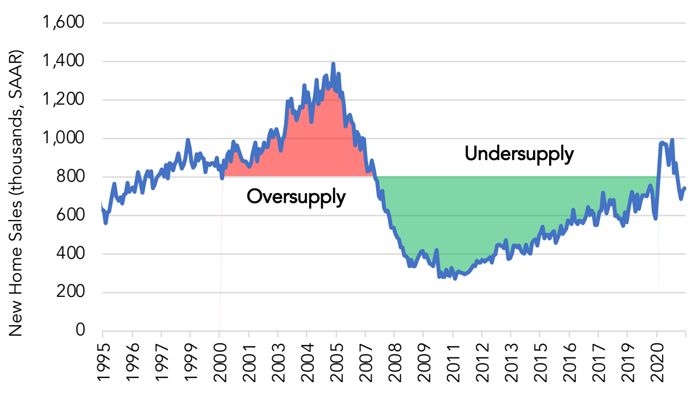

Sources: Bank of Dallas. Author's estimates based on data from the Bureau of Economic Analysis and Zillow

The Fed, and many of the more astute economists, have identified that inflation pressures related to supply chain, rising wages and housing costs will persist well into 2022. In contrast, this summer's inflation spikes in the Automotive and Leisure & Hospitality industries will likely subside. An important driver of higher Consumer Price Index (CPI) reports in 2022 will likely be the housing component, referred to as owner's equivalent rent ("OER"). This component of CPI has a 0.75 correlation to home price changes but has a 16 to 18 month lag. With home price appreciation up 19.7% year over year, this exhibit from the Dallas Federal Reserve shows how owner's equivalent rent is expected to influence reported CPI in 2022 and 2023.

## HOUSING FUNDAMENTALS

The country has seen a significant increase in the demand for single family housing broadly attributed to pandemic effects and the emergence of the Millennial generation as home buyers. Underlying fundamentals for housing are positive and housing affordability remains attractive on both a payment-to-income and payment-to-rent basis[5]. Understandably, higher prices have tempered demand and recent reports from realtors and homebuilders indicate reduced foot traffic and fewer bidding wars. While home purchase sentiment has softened, the supply situation remains extremely tight. Existing home sales inventory is only 1.3 million units vs. a traditional level near 2 million[6]. More importantly, Braddock's research shows that the country has a 4 to 6 million housing unit deficit that will take homebuilders 4 to 5 years to satisfy. Homebuilders cannot quickly fill this deficit because of material availability, labor constraints and zoning issues. Analysts forecast home price appreciation to moderate to a strong, but more sustainable, 5% to 8% in 2022[7] as housing units are added. These longer-term conditions remain positive for the Fund's RMBS focus.

**10+ Years of Undersupply Following the Housing Crisis**




Source: US Census Bureau as of 9/24/21

[1]Bureau of Labor Statistics. As of 8/31/2021. Published 10/12/2021
[2]JP Morgan, Jamie Dimon. As 6/14/2021
[3]Federal Reserve, Jerome Powell. As of 9/22/2021
[4]Modern RMBS are credit sensitive RMBS issued after 2008.
[5]National Association of Realtors, Freddie Mac, Braddock Financial. As of 9/30/2021
[6]National Association of Realtors. Data as of 8/31/2021. Published 9/29/2021
[7]Bank of America, Fannie Mae, Freddie Mac, JP Morgan, Nomura, Zillow/Pulse Economics. As of 9/28/2021

## FUND ATTRIBUTION & COMPOSITION

The Fund's Institutional Share Class delivered return of +1.15% during the third quarter of 2021, which outperformed the Bloomberg Barclays Aggregate Bond Index by 110 basis points and the ICE BofAML U.S. Cash Pay High Yield Index by 22 basis points. The Fund's strategy to target a low correlation to traditional fixed income sectors through the distinct credit profile of Modern RMBS/ Asset-Backed Security ("ABS") sectors and low effective interest rate duration (0.96 years as of 9/30/2021) contributed to the third quarter outperformance. RMBS generated +0.77%, ABS gained +0.30%, Commercial Mortgage-Backed Securities (CMBS) focused on the Multifamily sector added +0.05%, and Collateralized Loan Obligations (CLOs) contributed +0.03%. During the third quarter, the Fund continued to increase its allocation to floating rate coupon bonds from 69% to 72%.

The Fund's RMBS allocation increased from 69% to 71%, which coincided with the higher floating rate coupon strategy. During the quarter, the Fund added Modern RMBS positions at attractive levels. New issue opportunities were diversified across six Modern RMBS sectors. Existing positions performed well from a credit perspective. Mortgage delinquencies fell throughout the quarter which, in turn, reduced the credit risk related to the end of the national forbearance program. By the end of the fourth quarter, approximately 200,000 of Fannie Mae and Freddie Mac borrowers (just 0.6% of total conventional mortgage borrowers) who are currently in Forbearance will have reached their maximum extension and will be required to resume monthly mortgage payments or enter the loss mitigation process (loan modification or foreclosure). With the quarter's average mortgage rate of 2.87%, many borrowers backing our bonds refinanced their mortgages, reducing their mortgage rate from approximately 3.9% (the Fund's portfolio average underlying mortgage rate). Lower delinquencies and high prepayment rates were favorably viewed in the bond markets.

The Fund's Consumer ABS allocation was tactically lowered from 16% to 13%. Benchmark Consumer ABS outperformed comparable corporate credit over the quarter, which was attributable to the continued strong ability of the consumer to meet their financial obligations as well as supportive technical factors. Of note, the national measure of the percentage of disposable household income used to service their existing debt fell to 8.2%[8], an all-time low. The Fund sold a portion of these outperforming fixed rate positions into the strength of the ABS market, while rotating these sale proceeds into floating rate and higher yielding Modern RMBS and other ABS opportunities.

The Fund maintained a constant CLO allocation of 7% throughout the quarter. CLOs continue to offer strong relative value to other fixed income asset classes. CLO issuance remained heavy during the quarter with volumes hitting record levels. Year-to-date, the depth of investor demand has welcomed the paper and absorbed $317 billion of issuance of both new issue and refinancing transactions[9]. Although key fundamental metrics reported over the quarter reflected strength across firm balance sheets in the Leverage Loan market, CLO credit spreads have not tightened into the recovery as much as broader fixed income market for corporates. The issuance pipeline for the CLO market remains robust providing more opportunity to capture incremental value for the Fund into year-end.

The allocation to CMBS increased marginally from 6% to 7%. The Multifamily CMBS exposure remains constructive to the portfolio, adding diversification and floating rate coupons. The sector experienced further credit spread tightening during the quarter. With the housing dynamics across the U.S., rents are generally growing much faster than pre-pandemic trends. Year-to-date, the national median rent index has increased by 16.4%. For contextual purposes, rent growth from January to September averaged 3.4% in the proceeding pandemic years of 2017-2019[10].

## OUTLOOK

Looking forward to 2022-2023, we expect high levels of consumer demand to continue to prove to be resilient, as it did during the third quarter despite being plagued by Covid-19 Delta variant concerns and supply chain issues. Vaccines, and other treatments like Merck's anti-viral pill, along with rising wages should pull people back into the labor force. In response, the Fed's monetary policy will begin to resemble the policies seen in 2017-2019.

We expect a litany of books about the economic and political impacts of pandemic policy to be written over the next ten years as the country and world take lessons from this period. While fiscal and monetary policies were successful in averting a severe recession or worse, impacts across the economy and specific industries were uneven. In the U.S. housing market, the effects were overwhelmingly positive. Covid-19 affected borrowers were given time to regain financial footing, current borrowers were able to strengthen their financial condition through refinancing, and home buyers capitalized on four quarters of improved housing affordability due to lower rates.

As RMBS and Consumer ABS credit investors, the Fund is investing in a variety of bonds where the collateral pools benefit from tighter underwriting standards along with strengthened capital structures that offer more protection for investors. With the healthy long-term characteristics of the housing and mortgage markets, we believe the Fund's Modern RMBS and floating rate strategy provides fixed income investors a tactically managed fund that may mitigate the primary challenge, namely rising rates, facing traditional fixed income products.

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[8] Federal Reserve. Data as of 3/31/2021. Published 7/7/2021
[9] JP Morgan. As of 9/30/2021
[10] Apartment List. As of 9/27/2021

**Fund's Top Ten Holdings:** PNMSR 18-GT2 VAR RT 08/25/2025 2.36%, MORGAN STANLEY LIQ GOVT- INST 2.32%, MCAS 2019-01 M10 VAR RATE 10/15/2049 2.04%, RMIR 2019-1 B1 MTGE VAR RT 02/25/2029 1.60%, MCAS 2020-01 M10 VAR RATE 03/25/2050 1.58%, OMIR 2020-1A M2 VAR RT 07/25/2030 1.57%, STACR 2018-SPI2 VAR RT 05/25/2048 1.56%, TMIR 2021-1 B1 VAR RATE 8/25/2033 1.53%, MSAIC 2018-2GS D VAR RT 02/22/2044 1.44%, and STACR 2018-SPI1 B VAR RT 02/25/2048 1.40%.

## PERFORMANCE AS OF 9/30/21

| | Q3 2021 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Ann ITD* |
|---|---|---|---|---|---|---|---|
| BDKNX | 1.15% | 5.47% | 10.36% | -6.39% | -2.01% | 3.81% | 5.58% |
| BDKAX | 1.09% | 5.26% | 10.08% | -7.13% | -2.25% | 3.56% | 5.32% |
| BDKAX w/Load | -3.26% | 0.77% | 5.36% | -8.47% | -3.09% | 2.95% | 4.81% |
| BDKCX | 0.89% | 4.67% | 9.27% | -7.84% | -2.99% | 2.78% | 4.53% |
| Bloomberg Barclays Aggregate Bond Index | 0.05% | -1.55% | -0.90% | 5.36% | 2.94% | 3.01% | 3.74% |
| ICE BOFA ML US High Yield Index | 0.93% | 4.55% | 11.30% | 6.60% | 6.33% | 7.26% | 8.21% |

***Performance data quoted represents past performance and is no guarantee of future results.*** Total return figures include the reinvestment of dividends and capital gains. ***Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. For the most recent month end performance, please call (800) 207-7108.*** Returns showing less than one year are cumulative. The gross and net operating expense ratio for the Class A, C, and Institutional Shares are 1.78%, 2.53%, and 1.53%, respectively. The contractual agreement between the Fund and the Advisor for fee waiver and/or paying for operating expenses is in effect until April 30, 2022. Performance results with load reflect the deduction for Class A Shares of the 4.25% maximum front end sales charge. Class C Shares are subject to a contingent deferred sales charge of 1.00% when redeemed within 12 months of purchase. Performance represented without the load would be lower if this charge was reflected. Because of ongoing market volatility, ***Fund performance may be subject to substantial short term changes.*** **ITD represents inception-to-date, 7/31/2009.

**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.**

## STANDARDIZED 30-DAY SEC YIELD – AS OF

| | SEC Yield | Unsubsidized Yield |
|---|---|---|
| BDKNX | 3.58% | 3.59% |
| BDKAX | 3.18% | 3.20% |
| BDKCX | 2.57% | 2.59% |

***Subsidized 30-Day SEC Yield is based on a 30-day period ending on the last day of the previous month and is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The subsidized yield is based on the net expenses of the Fund. The yield would be lower without the waivers in effect. Unsubsidized 30 Day SEC Yield is based on total expenses of the Fund.***

***This material must be preceded by or accompanied with a copy of the Fund's current prospectus.***

**RISKS:** 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: **COVID-19 Related Market Events:** The outbreak of COVID-19 has caused major disruptions to 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. **Market Risk:** the market price of a security may decline, sometimes rapidly or unpredictably, due to general market conditions that are not specifically related to a particular issuer, company, or asset class. **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. **Fixed income/ interest rate:** Generally, fixed income securities decrease in value if interest rates rise, and increase in value if interest rates fall. **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. **Mortgage-backed securities:** subject to prepayment risk, "extension risk" (repaid more slowly), credit risk, liquidity, and default risks. **Management and Strategy.** the evaluation and selection of the Fund's investments depend on the judgment of the Fund's Sub-Advisor about the quality, relative yield, value or market trends affecting a particular security, industry, sector or region, which may prove to be incorrect. **Credit Risk:** If an issuer or guarantor of a debt security held by the Fund or a counterparty to a financial contract with the Fund defaults or is downgraded or is perceived to be less creditworthy, the value of the Fund's portfolio will typically decline. The Fund's securities are generally not guaranteed by any governmental agency. **Sector Focus:** focus may present more risks than if broadly diversified. **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. **ETF Risk**: Investing in an ETF will provide the Fund with exposure to the securities comprising the index on which the ETF is based and will expose the Fund to risks similar to those of investing directly in those securities.

The Fund may not be suitable for all investors. We encourage you to consult with appropriate financial professionals before considering an investment in the Fund.

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.

**Consumer Price Index (CPI) :** an index of the variation in prices paid by typical consumers for retail goods and other items.

Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security.

**Basis points:** one hundredth of one percent, used chiefly in expressing differences of interest rates. Duration measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the effective duration, the greater the price change relative to interest rate movements.

**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. **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. One cannot invest directly in an index.

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