BRAMSHILL MULTI-STRATEGY INCOME FUND

February 2023

MONTHLY INSIGHTS

As the U.S. Consumer faces mounting pressures, we see opportunities in Structured Products

Liberty Street Funds

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Strong like Bull?

One of the greatest debates at the start of 2023 is in response to the question: "Is the U.S. economy going to experience a recession?" Furthermore, if a recession occurs, will it be comparable to the one last seen during the Great Financial Crisis or will it be one of the more sanguine varieties, as many market participants are predicting?

We feel that the main driver of this question, especially here for the U.S. economy, comes squarely down to the U.S. Consumer, and its resilience in continuing to spend. As seen in the chart below, Personal Consumption Expenditures relative to the U.S. Gross Domestic Product have recently bounced to higher percentages (when compared to lows observed during the midst of COVID-19 related lockdowns) to levels not seen since the Great Financial Crisis.

Personal Consumption Expenditures / Gross Domestic Product

Sources: FRED (St Louis Fed), U.S. Bureau of Economic Analysis

When tracking the U-6 unemployment rate in the U.S. (which we focus on more intently than the more broadly used U-3 unemployment rate, since it also considers the portion of the labor force that is underemployed), we can see how strong the current level of employment is here in the U.S. and better appreciate what the U.S. Federal Reserve Bank ("U.S. Fed") is contending with in their current battle to ebb inflation back to their target level of 2%.

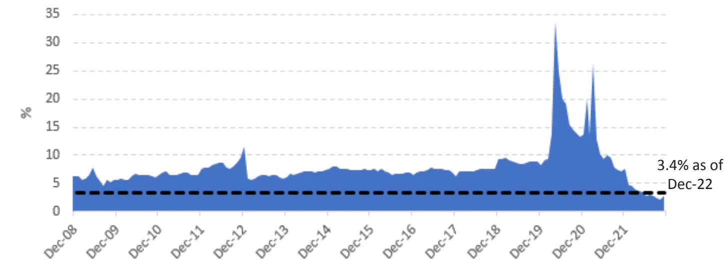
U-6 Unemployed & Part Time employed (underemployed) (Seasonally Adjusted)

The dashed line on this chart represents the "U-6" unemployment rate of 6.5% as of Dec 2022.
Source: Bloomberg

Showing Cracks?

As we dive into the "resilience", or current health of the U.S. Consumer, we want to first take a look at their Personal Savings rate as a percentage of their Disposable Personal Income. As seen below, the government stimulus provided to the U.S. Consumer resulted in a savings rate that jumped higher, to unprecedented levels. In fact, the savings rate was multiples higher versus the rate at any point in time since the Great Financial Crisis. However, the Personal Savings rate has most recently dropped precipitously and is now below its typical rate historically.

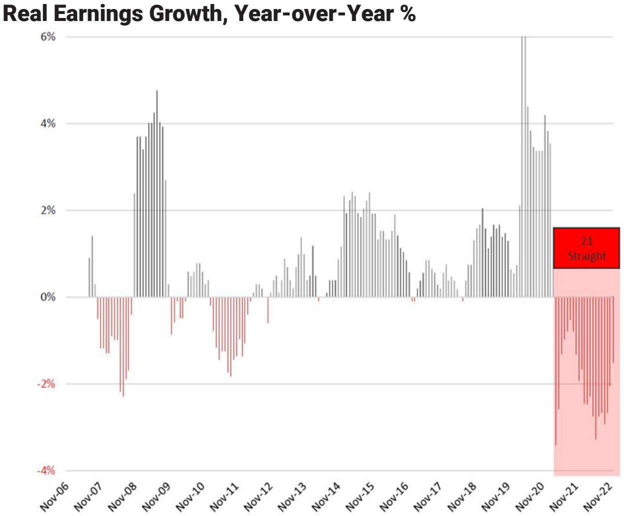
U.S. Personal Savings as a % of Disposable Personal Income



The dashed line on this chart shows the Personal Savings Rate of 3.4% as of Dec 2022.
Source: Bloomberg

Once you take the extremely high rate of inflation in goods and services into account, Real Earnings Growth on a year-over-year basis has actually decreased for 21 consecutive months.

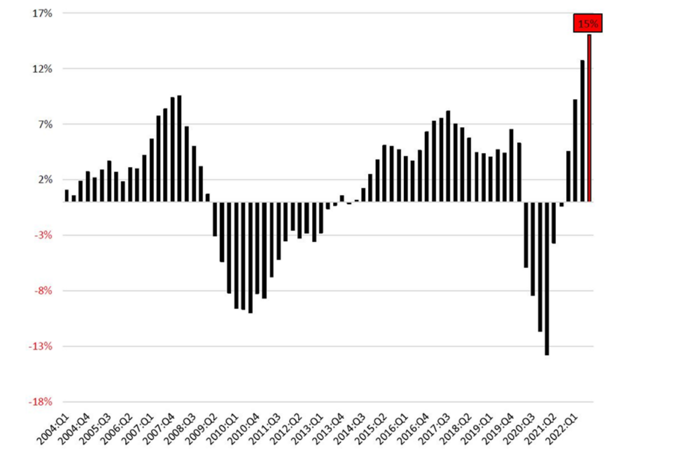
Real Earnings Growth, Year-over-Year %



Source: Hedgeye, BLS

When you combine depleting/depleted savings with lower real earnings growth, that leads to U.S. Consumer credit card balances rising at unprecedented year-over-year growth rates, even with credit card interest rates reaching historical highs due to higher overall costs of funds globally (U.S. Fed raising rates, etc.).

U.S. Consumer Credit Card Balances (Year-Over-Year %)

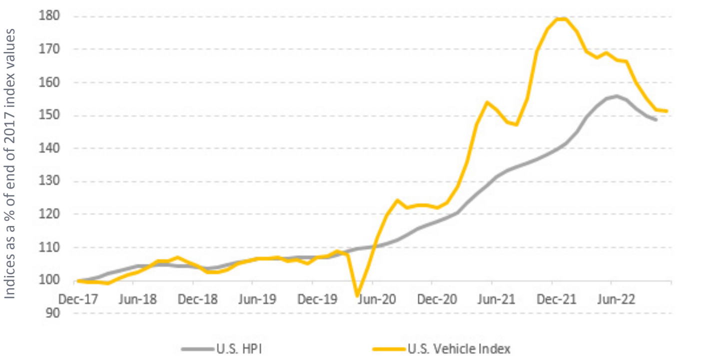


Source: Hedgeye, NY FED, FDIC

Bending and about to Break?

The glut of savings from government stimulus payments and low rates along with extremely low levels of unemployment in the U.S. caused assets such as homes and vehicles to increase in value at unprecedented rates versus pre-pandemic growth rates. This can be seen in the chart below as these indices for both homes and vehicles turned sharply higher in 2020 versus their growth from the previous few years. However, as savings and real wages have dissipated over the past year, these indices have also began their decent lower as well. Even though the declines of these indices initially lagged behind other metrics, you can see their declines should continue during this disinflationary cycle. We are cognizant of this and feel defaults on any loans originated during 2022 may have higher severities than projected by its originator.

U.S. S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index and Manheim US Used Vehicle Value Index SA since 2018

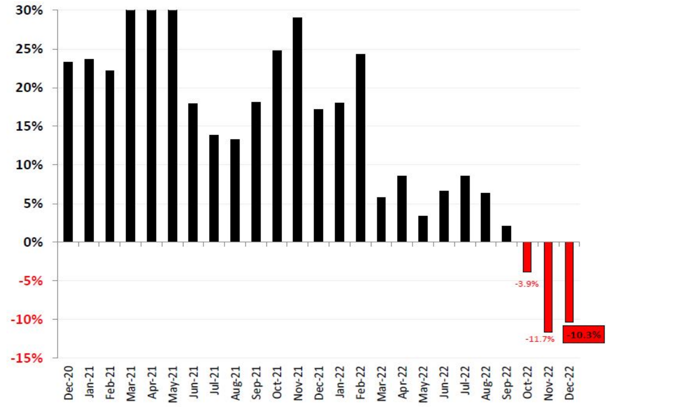


Source: Bloomberg

The negative effects of inflation raising the cost of living tends to affect lower income (which generally tend to be "subprime" quality) borrowers disproportionately and more quickly than it does higher income borrowers. As demonstrated below, the levels of delinquencies in subprime auto loans have already surpassed the Great Financial Crisis peaks of approximately 4.69%. The headwinds borrowers are facing with declining auto prices (from a major peak), lower savings rates, lower real wages, and higher credit card balances have been mitigated, for now, by historically low unemployment and large excess savings accumulated from stimulus (transfer payments).

Therefore, if we are about to begin experiencing the rise of the unemployment due to the U.S. Fed's hawkish stance on rates (which they have repeatedly said they intend to hold) this will surely cause further deterioration in U.S. Consumer fundamentals (i.e. their ability to service their debt and prohibit them from borrowing more.)

Luxury Goods Consumption (Year-over-Year)
(Personal Consumption Expenditures (PCE) for Pleasure Boats, Aircraft, Jewelry and Watches)



Source: Hedgeye

In summary, we anticipate higher delinquencies and severities across all asset types should lead to greater than anticipated losses which will decrease profitability at consumer facing financial institutions. Along with that the destruction of demand of the U.S. Consumer (consumption being the largest component of the U.S. GDP) should continue for the time being and should put pressure on revenues for a majority of U.S. Corporations more than is anticipated as they are already coping with the onset of a profit recession cycle and eroding margins. In our view, the question is likely not, "Will there be a recession?", but rather, "When the impending recession does indeed occur, how staggering will it be historically?"

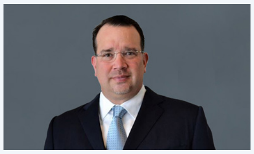
Taking all the risks and rewards into account we will be mindful of such deteriorating fundamentals and expect to focus on the following playbook going into 2023:

1. In the near term, as the fundamentals haven't fully flowed through as of yet, we will remain somewhat defensive and focus on investments that are secured by underlying assets with stronger borrowers such as prime auto and multi-family properties and stay high up in the capital structure and short in duration. ***Examples of these being 1-2 year duration seniors backed by auto receivables, and heavily cashflowing bonds backed by agency originated low Loan to Value (LTV) seasoned multi-family properties. While avoiding lower mezzanine/subordinate bonds as well as bonds backed by collateral originated to lower credit quality borrowers in sub sectors such as auto, credit cards, residential properties, etc.***

2. After the fundamentals flow through and "bottom out," we expect to see sellers of distressed assets at very attractive valuations. ***We will look to make opportunistic investments in either subordinate credits and/or lower credit borrowers in subprime auto, credit cards, residential, etc., that offer the potential for good risk-adjusted total returns such as high single to mid-teens.***

We believe that all-in-all the backdrop of a weakening economy and a hawkish U.S. Fed (albeit in the later stages) will be a good foundation for most fixed income, especially in select Securitized Products, and will help highlight that good asset selection resulting from a repeatable process with a long track record will allow Bramshill Investments to outperform our peers.

Contributors:



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

RISKS AND OTHER DISCLOSURES:

Effective December 1st, 2022, Bramshill Investments, LLC is the Fund's Sub-advisor responsible for managing the Fund's portfolio, replacing the Fund's prior sub-advisor, and the Fund's name changed to Bramshill Multi-Strategy Income Fund. The Fund's investment objective and principal investment strategy did not change.

An investment in the Bramshill 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 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. **Fixed income/interest rate:** Generally, fixed income securities decrease in value if interest rates rise, and increase in value if interest rates fall. **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 and Asset-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. **Sector Focus:** focus may present more risks than if broadly diversified. **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. **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. **Real estate market:** property values may fall due to various economic factors. **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. **Collateralized Loan Obligations:** subject to interest rate, credit, asset manager, legal, regulatory, limited recourse, liquidity, redemption, and reinvestment risks. **COVID-19 Related Market Events:** The COVID-19 pandemic has resulted in extreme volatility in the financial markets, and domestic and global economic downturns. It may exacerbate other risks that apply to the Fund. **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. 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. **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. **LIBOR:** Many financial instruments use a floating rate based on the London Interbank Offered Rate ("LIBOR"), which is being phased out. Any effects of the transition away from LIBOR could result in losses.

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.

U.S. S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index: seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.. **Manheim US Used Vehicle Value Index**: measures the prices car dealerships pay for used cars at auctions. The prices are adjusted for seasonal factors but typically offer insight into what dealerships pay for the used cars they sell. It is not possible to invest in an index.

Real Earnings Growth is the change in an entity's reported net income over a period of time. **The "U-6" Unemployment rate** measures of unemployment includes the total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force. (Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.)

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Liberty Street Advisors, Inc. is the advisor to the Fund. The Fund is part of the Liberty Street Family of funds within the Investment Managers Series Trust.

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