BRAMSHILL MULTI-STRATEGY INCOME FUND

May 2024

MONTHLY INSIGHTS

Active Income Strategies: Solutions in a Stagflationary Environment

Liberty Street Funds

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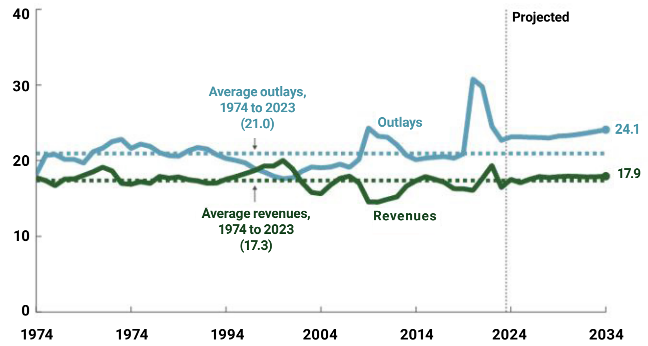
Active Income Strategies: Solutions in a Stagflationary Environment

Stagflation is a term loosely used in economics and journalism to describe a period of below trend real growth and above trend inflation. In popular parlance it originated in the 1970's during a period of high inflation related to commodity inflation and wage price increases. During this period reaccelerating growth caused even higher inflation which the US Federal Reserve could not extinguish with its customary monetary tools.

Currently, the Fed is roughly at the point of having completed a cycle of monetary tightening which attempts to control the inflation resulting from the highly stimulative fiscal and monetary policy adopted in response to the Covid pandemic, combined with associated supply shocks and degradation of many supply chains. To date, this process has failed to produce much slack in the labor market (much less a recession) while inflation remains uncomfortably above the Fed's 2 percent target. At the same time, recent Gross Domestic Product (GDP) figures suggest that the economy is slowing below its long run potential based on population growth and productivity, which is also about 2 percent.

While economic forecasts are always uncertain, why might we be entering an extended period of stagflation? The economy's resistance to entering an actual recession—which was widely expected in the first half of 2023—is probably the result of fiscal dominance. This term characterizes an economic condition in which the magnitude of spending by the federal government is so large as to overwhelm the normal effects of monetary policy affecting the economy. At present, the federal budget deficit is running at about 6 percent of GDP, a figure unheard of in peacetime while at approximately full employment. This federal spending includes the enormous Covid relief American Rescue Plan, the Bipartisan Infrastructure Plan, the CHIPS act, and the Inflation Reduction Act, as well as ongoing major commitments to Social Security, Medicare, and the military. On top of these expenditures, increased policy rates from the Federal Reserve have resulted in much higher interest expenditures. The federal budget figures underlying this reality are summarized in the Congressional Budget Office's most recent projections shown in Figure 1.

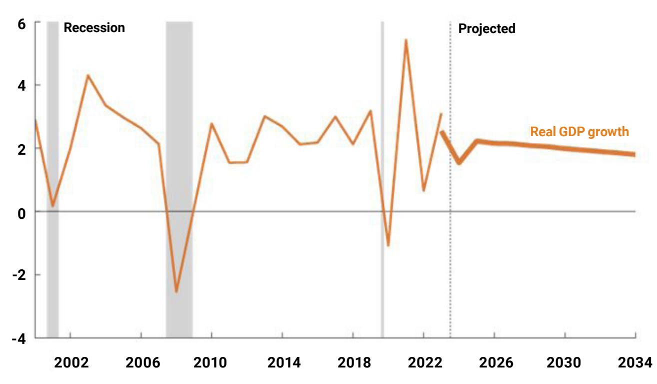
Figure 1: Federal Expenditures and Revenues as a Percentage of GDP



Sources: Congressional Budget Office (CBO)

While increasing federal spending can have the effect of stimulating the economy and preventing to some degree the risk of recession—as happened in 2023- it is likely to have the long term effect of reducing growth, as projected by the CBO in Figure 2. Increased federal borrowing at this scale has the effect of withdrawing capital from private markets and reducing the funds available for productive private investment. Recent proposals by the administration to reduce the deficit by increasing capital gains taxes, if enacted, will have the further effect of reducing private investments.

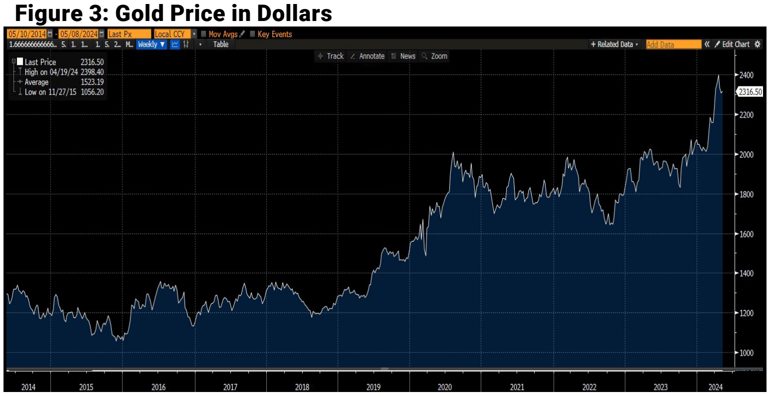
Figure 2: Projected Real GDP Growth



Sources: Congressional Budget Office

A second major factor of the current environment is de-dollarization. As the incumbent reserve currency, the dollar is commonly used for both international transactions and by governments to hold currency reserves in the form of US Treasury bonds. In recent years the purchases by foreign holders have been declining, and central banks have increasingly purchased gold for reserves, as concerns have risen regarding US finances. An important turning point was reached in this trend in 2022, when the US and its allies seized Russian overseas reserves in response to the invasion of Ukraine. This “weaponization” of the dollar shook the confidence of many foreign holders of US Treasuries, as it implied that a significant political disagreement with the US could result in a confiscation of their reserve assets. This was widely seen as a major impetus for Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates (BRICS) nations to develop modalities for trade settlements apart from the dollar based on some combination of local currencies and gold. The long term effect of this trend is expected to produce increased pricing of commodities, especially oil, in relation to gold and a decline of the value of the dollar in terms of gold. This was discussed in detail in our June 2023 Monthly Insights. Along with the many geopolitical risks in the world, these trends seem likely to lead to above trend commodity inflation. Figure 3 shows the recent dramatic increase in the price of gold in dollar terms.

Figure 3: Gold Price in Dollars



Sources: Bloomberg

Although the use of the dollar in international transactions is unlikely to decline suddenly, the use of the dollar--particularly US Treasury bonds--as reserves has been declining for many years in favor of gold. In addition to increasing the value of gold relative to the dollar, this trend is likely to increase the use of gold as a pricing reference for commodity trading, particularly for oil, which will have the long run effect of raising these prices in dollar terms as well. If these trends are sustained, they create issues for many traditional investments.

Continued inflation—absent a recession—creates a difficult environment for long duration and passive fixed income styles. Slow growth creates a problem for many sectors of the equity market in the form of slower earnings growth. A nontraditional approach to delivering income and total return in this environment is represented by various strategies at Bramshill Investments. Across different portfolios, several asset classes and/or security structures can produce better results than traditional passive fixed income. Some examples are Fixed-to-Float Preferreds, Short Duration Corporates, Various Structured Products, as well as select categories of pass throughs inclusive of Real Estate Investment Trusts, Master Limited Partnerships, and Business Development Companies.

As a group, these types of securities offer a number of advantages in a stagflationary environment:

1. Current yields are higher than most generic index-linked fixed income options.
2. Yields are not fixed and can increase due to improved operations or pricing by the underlying businesses. Furthermore asset class and/or sector rotations can be used to capitalize on opportunities from staglationary dislocations.
3. Target businesses and sectors which serve basic needs of their customers are stable even under slow economic growth.
4. Target securities with high current cash flows, makes them less sensitive to volatility in a stagflationary environment.

Bramshill has a long history in tailoring their portfolios to emerging macroeconomic conditions. To address current circumstances, we would highlight the following concentrations across various portfolios:

PERPETUAL FIXED-TO-FLOATING RATE PREFERREDS AND FIXED-TO-RESET PREFERREDS

Instruments that carry fixed coupons for a non-call period of typically 5 years, and then a floating rate coupon spread over a benchmark such as LIBOR or Secured Overnight Financing Rate (SOFR) and instruments with a fixed coupon for 5 or 10 years, at which time they are either called or the coupon "resets" to a spread over matched duration Treasuries. Once resetting, these coupons are fixed for 5 years again until the next reset date in which the coupon would reset again. We find many of these structures very attractive as they provide attractive yields to short calls and mitigate interest rate risk by shortening in duration as rates rise. Some examples can be found in Financials such as SCHW and C, and Utilities such as EIX and SRE.

DOMESTIC ENERGY PRODUCTION

With global energy trade subject to geopolitical stress and likely to lead to higher energy prices we have exposure in various types of domestic energy producing enterprises across Fixed-to-Float Preferreds, Corporate Debt, and/or Equity. Select Examples: BP, SD, VNOM, ARLP, NEP

MIDSTREAM ENERGY

With US domestic oil and gas production near all-time highs at a time when siting and building new transmission and distribution facilities are virtually impossible, existing pipelines, terminals, and gas stations are experiencing high throughput and profitability. Select Examples: ET, ENB, EPD, PAA, KNTK

BUSINESS DEVELOPMENT COMPANIES (BDC)

With the recent turmoil in depository institutions banks have tightened lending standards, creating a potential void in middle market lending. BDCs have benefited, and with the appropriate due diligence regarding non-accruals, select investments to high quality, proven managements in this space can provide superior yield with upside potential across Senior Debt and Equity structures. Examples: ARCC, BXSL, OCSL, TSLX

OPPORTUNISTIC STABLE INCOME

Taking advantage of the bond market backup in late 2023, we took positions in high yielding senior loan and municipal bond closed end funds which had sold off significantly, were available at deep discounts to NAV, and which had successfully absorbed prior policy increases in short term interest rates. Furthermore, select ETFs provide short-term liquid exposure to less liquid, higher yielding fixed income asset classes providing low volatility investment opportunities at yields rarely seen in the past decade. Examples: SHYG, NAD, NEA, PAXS, JFR, AFT, FSCO

PRECIOUS METALS PRODUCERS

In an environment of higher inflation and muted growth, select precious metals producers can provide opportunities. Examples: AEM, GOLD.

BENEFICIARIES OF GLOBAL SUPPLY CHAIN DISRUPTIONS

International sanctions and conflicts have in recent months led to disruption of shipping routes, forcing international cargo to-take many routes longer than those previously available. This in turn has led to longer voyages and higher day rates for shippers. Examples: SFL, GNK, FRO, FLNG

Perhaps the most important common denominator to many of these securities is that they have some form of pricing power which they are able to exercise in a stagflationary environment as well as offering basic products which have resilient demand even in a slow growth environment. We believe that many of these portfolio holdings are positively convex and have the potential to increase their yields. Therefore, while they represent income investments, they are not subject to the same pitfalls of a traditional, passive, fixed income portfolio. As such, we believe our portfolios will act well in various environments, including one with unwelcome inflation, and slower growth.

Contributors:

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26 years experience

BRAMSHILL INVESTMENTS

The Bramshill Multi-Strategy Income Fund's Top Ten Holdings as of 3/31/24 % Net of Cash are WAL 2021-CL2 M3 MTGE VAR RATE 07/25/2059 4.10, CAS 2019-HRP1 B1 VAR RT 11/25/2039 3.72, AMSR TRUST 2020-SFR1 8.1930% 04/17/37 3.48, ALLY AUTO RECEIVABLE 0.0000% 02/16/32 3.04, FARM 2023-1 B MTGE VAR RATE 3/25/52 2.20, CACLN 2021-3 G 9.812% 2/26/2029 2.20, WAL 2021-CL2 M4A MTG VAR RATE 07/25/2059 2.11, STRUCT AGENCY CREDIT VAR RT 10/25/2027 2.06, WAL 2021-CL2 M2 MTGE VAR RATE 07/25/2059 1.98, and PROGRESS RES TR 2020 5.2680% 04/17/37 1.98.

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

Before investing you should carefully consider the Bramshill 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.

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. Effective April 30, 2023, changes were made to the Fund's principal investment strategy. While the Fund will still invest in securitized products such as residential mortgage-backed securities ("RMBS") and asset-backed securities, it may not focus its investments in RMBS, and the strategy may include investments in other fixed income opportunities. No changes were made to the Fund's investment objective.

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 and less liquid than investment-grade securities. **Securitized Products:** such as mortgage-backed and asset-backed securities, are 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. **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, which may prove to be incorrect. **Government Securities:** securities issued or guaranteed by the U.S. government or its agencies (such as securities issued by Ginnie Mae, Fannie Mae, or Freddie Mac) are subject to market risk, interest rate risk and credit risk. **Sector:** emphasis of the Fund's portfolio on a specific sector may present more risks than if the portfolio were broadly diversified over numerous sectors. **Collateralized Loan Obligations:** subject to interest rate, credit, asset manager, legal, regulatory, limited recourse, liquidity, redemption, and reinvestment risks. **Recent Market Events:** Periods of market volatility may occur in response to market events and other economic, political, and global macro factors, such as the Covid-19 pandemic, government actions to mitigate its effects, and the rise of inflation, could adversely affect the value and liquidity of the Fund's investments. **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. **Municipal Bonds:** payment of principal and interest on these obligations may be adversely affected by a variety of factors at the state or local level. **Leveraged Loan:** subject to the risks typically associated with debt securities, and may be more credit sensitive. **Equity:** The value of equity securities may fall due to general market and economic conditions, perceptions regarding the real estate industry, or factors relating to specific companies. **Preferred Stock:** subject to company-specific and market risks applicable generally to equity securities and is also sensitive to changes in the company's creditworthiness, and changes in interest rates. **ETF**: 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.

Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that replaced the London Interbank Offered Rate (LIBOR). **Convex** means a holding returns increase more than proportionately to the market return.

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. These views are intended to assist in understanding the Fund's investment methodology and do not constitute investment advice.

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