CrossingBridge Low Duration HY Fund (CBLDX)

Quarterly Fund Update: 3Q 2018

Inception: 01/31/2018	3Q 2018	1 Month	Since Inception
CrossingBridge Low Duration HY Fund	0.94%	0.23%	1.95%
ICE BofAML 0-3 Yr US HY Index*	1.97%	0.51%	3.63%
ICE BofAML 1-3 Yr Corporate Bond Index*	0.72%	0.07%	0.98%
ICE BofAML 0-3 Yr US Treasury Index*	0.36%	(0.04%)	0.77%

The performance data quoted represents past performance. Past performance does not guarantee future results. All performance is annualized except where the length of performance history is less than 1 year. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-888-898-2780. Investment performance reflects contractual fee waivers. In the absence of such fee waivers, total return would be reduced. ***See additional Fund disclosures on page 8.***

What, me worry?[1] -Alfred E. Neuman

There are many recognised short-term risks in today's global economy: new financial crises in highly indebted emerging market economies, a bond yield snapback in advanced economies, old and new geopolitical tensions disrupting a fragile recovery or even an "unknown unknown" new event…But perhaps the most significant risk for financial markets now is the risk of complacency and self-delusion. Some of this is partly related to markets' hope that short-term policies at odds with well established economic principles are sustainable. But it is also partly related to markets' bet that muddling through policies in increasingly fractured societies without undertaking sustainable structural reforms can still produce interesting short-term returns.[2]

These words written in April 2017 are even more relevant today. This is particularly apparent in the high yield market as investors are becoming less discerning in underwriting credit risk.

Credit Rating Specific Spreads: Index Minus 1-3 Year Maturities [A]

	3Q06	3Q07	3Q08	3Q09	3Q10	3Q11	3Q12	3Q13	3Q14	3Q15	3Q16	3Q17	3Q18
AA	24	20	(31)	20	39	49	45	45	40	44	28	27	23
A	34	24	(140)	16	49	48	46	48	42	42	37	34	41
BBB	54	24	(29)	(14)	46	59	69	72	58	70	69	63	67
BB	73	(26)	(205)	(59)	62	16	106	102	70	73	98	68	70
B	87	(35)	(1145)	(79)	16	(39)	161	79	61	(66)	(42)	(9)	90
CCC	(395)	(234)	(1141)	(434)	(251)	(225)	(86)	(865)	(454)	(560)	(483)	(521)	(101)

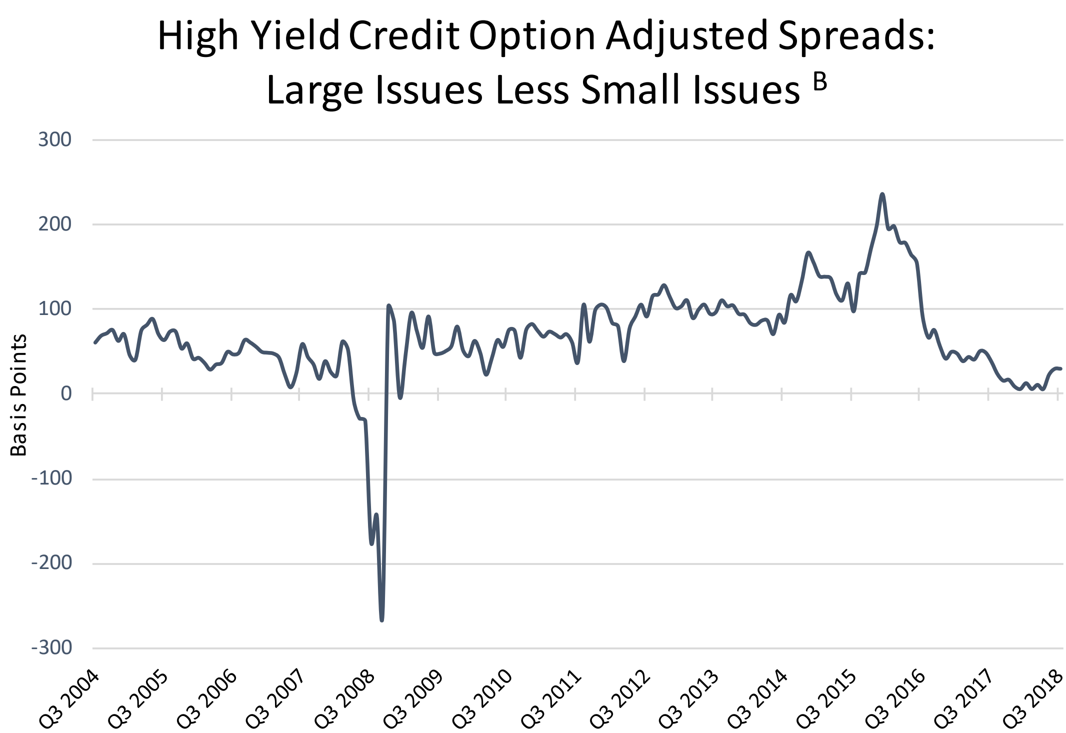
Perceived Refinancing Risk

Most — Least

1 Alfred E. Neuman, the face of Mad magazine since 1954, often pointed at the absurdities of life. This expression aptly conveys the absurdity of the markets' apparent lack of concern relative to increasing economic and social risks.

2 The risk of complacency and self-delusion, Luiz Pereira da Silva and Elod Takats for Bank for International Settlements, published in The Eurofi Magazine, The Eurof High Level Seminar 2017, 5-7 April 2017 Malta.

Credit spreads can be used to measure investors' level of concern or complacency. The table above shows, for each rating category, the difference between (a) the credit spread for the bond index (including all maturities)[3] and (b) the average credit spread of short-term bonds (with maturities of 1-3 years). Normally, this relative spread will be positive for higher rated bonds (AA-BBB) because bonds with shorter maturities have less tail risk (the potential for things to go wrong over time) than longer dated bonds. Moving down the credit spectrum, for lower rated bonds (B-CCC), negative numbers are normal, reflecting investors' concern that lower rated issuers may have greater difficulty refinancing or repaying their bonds at maturity.[4] This refinancing concern became particularly acute in the "hot zone" during the Credit Crisis of 2007-2009, when investors became so alarmed that relative spreads reflected doubt about the ability to refinance any bonds. The current relative spreads are near the highest on the chart across the board and thus reflect the market's optimistic (or least skeptical) view with respect to repayment of short-term maturities. We find this lack of worry troubling as investors are thus demanding less compensation, in the form of a risk premium over the Treasury rate, for the refinancing risk of these lower quality credits.

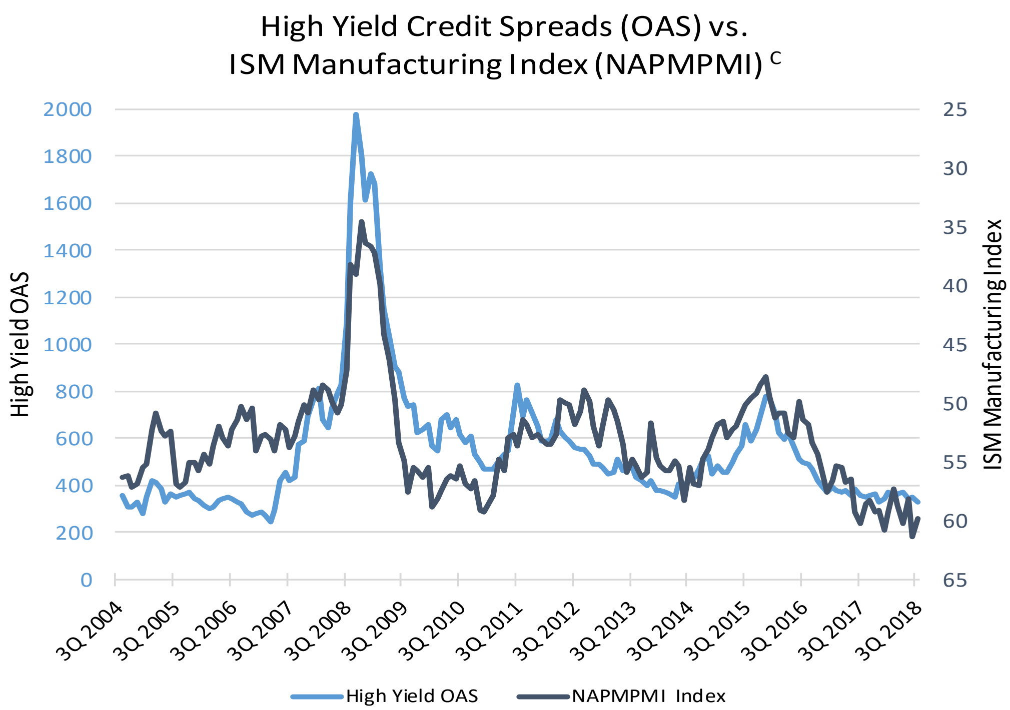


3 Index maturities range from 5 to 12 years and change over time based on issuance and retirement of bonds
4 When the debt markets tighten or freeze up, buyers may "go on strike", dramatically reducing their willingness to extend credit and preventing companies from refinancing their maturities with new debt issuance. Hence, with their issuers facing greater near-term need to access the capital markets and a more limited time in which they can improve their balance sheets and/or financial condition, obligations with short-term maturities may yield more than those with longer maturities.

Similarly, the risk premium associated with smaller issuers seems to have evaporated. As shown above[5], for most of the last 15 years, investors have required greater credit spreads for smaller high yield bond issues than for large ones. The only time when this was not the case was during the 2007-09 Credit Crisis. Smaller bond issuers may be:

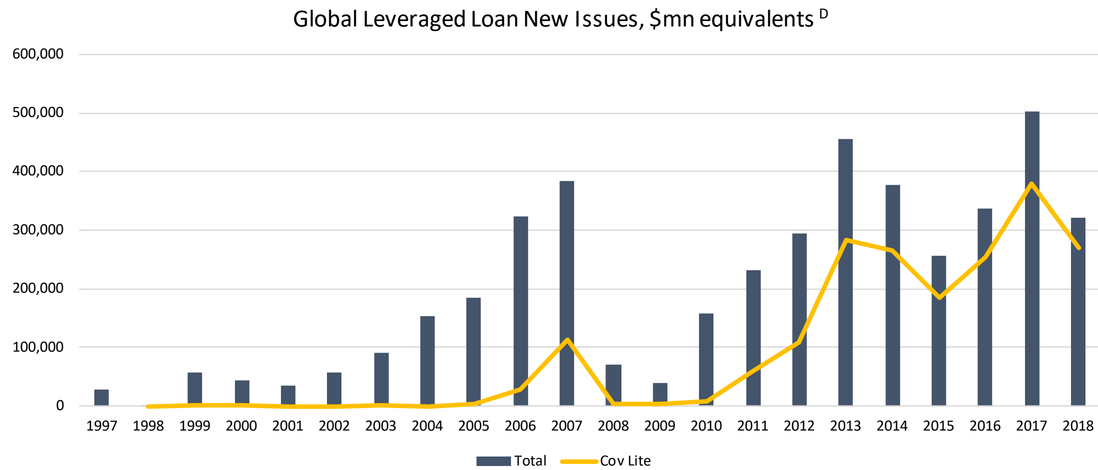
- smaller in scale in terms of revenues or profitability,
- active in smaller industries or specialized, niche channels or
- privately owned rather than publicly traded.

Smaller bond issues also tend to trade less frequently in the market and may not attract attention from large institutional investors. Further, smaller issues are generally not included in passively managed indexed exchange-traded funds. Over the last several years, however, this risk premium has declined, suggesting that bond investors, seeking higher yields in a low rate environment, have discounted these risks and become less demanding in considering the appropriate consideration for smaller bond issues.



In light of these revelations, one might ask, "How much longer can this go on?" As shown above, the narrowing of high yield credit spreads over the last several years is supported by strength in economic activity, as reflected by the ISM Manufacturing Index. History suggests that this can go on for a long period of time, but, with the ISM index at its most favorable level since 2004 and high yield credit spreads within 10% of their all-time "tights", it seems unlikely that credit spreads can contract much further.

5 The graph reflects the difference in average credit spread for the JLIT versus the JLRG. The JLIT is comprised of high yield bonds in the Merrill Lynch U.S. High Yield Master II Index that are in the bottom 50% of the index as ranked by issue size. The JLRG is the segment of the index representing bonds in the top 50% of the index as ranked by size.



A further concern is the trend towards "covenant-lite" leveraged loans. Traditionally, leveraged loans have had higher credit quality, often positioned senior to unsecured bonds, and have provided better covenant packages to protect lenders in the case of credit deterioration. However, with robust growth in collateralized loan obligations ("CLOs") and floating rate funds funded by investors seeking to benefit from rising interest rates, the leveraged loan market grew dramatically in 2017, with 2018 on pace to exceed the prior year. This influx of capital has caused investors to severely reduce their underwriting standards, lending to more risky businesses, increasingly accept "covenant-lite" loans, as reflected in the graph above, and tolerate a high level of leverage. In the inevitable downturn, this may result in more frequent defaults with lower distressed recoveries. As a result, we have remained on the sidelines for the majority of new deals.

Apropos of these developments, the frothiness in the leveraged finance market was highlighted in Barron's September 19, 2018 article[6] discussing the financing for the acquisition of Refinitiv (formerly Thomson Reuters' financial data services business). The Blackstone-led $17 billion buyout was financed with $13.5 billion of debt including $8.86 billion of term loans. The deal was marketed based on net leverage of 5.2x EBITDA, but this measure reflects $650 million of cost savings expected to be realized over the next three years; without this, leverage is above 7.0x. The U.S. dollar tranche was priced tightly at LIBOR+375 bps to yield approximately 6.20%, but the loan has provisions that cause the coupon to decline further if certain leverage tests are met. Lender protections are watered down by provisions that permit the equity sponsor to pay itself large dividends, repay unsecured debt before repaying secured debt and, under certain conditions, sell the company without redeeming the existing debt – all unusually permissive for a leveraged loan. Needless to say, we passed on participating in this financing.

6 What the Biggest Leveraged Buyout of 2018 Says About the Credit Boom, Barron's September 19, 2018, https://www.barrons.com/articles/thomson-reuters-refinitiv-buyout-1537370035

Despite the current market conditions and our caution, we have continued to invest in bonds and loans with identifiable events that are likely to be a catalyst for near-term repayment. However, should events fail to crystalize as we expect, we believe that these investments will ultimately be "money good"[7] and earn an acceptable yield to their final outcome. Here are a few examples of investments we made during the quarter. The market is applying a much higher risk premium to the Kodak and Monitronics loans versus the Spectrum bonds, as suggested by their much higher yield, reflecting the potential for greater market price volatility and process risk.

Spectrum Brands ("SPB") – Spectrum Brands is a consumer products company operating in various segments including batteries, hardware, home improvement, lawn and garden, auto care and pet supplies. In January 2018, the Company announced the sale of its battery business to Energizer Holdings for $2 billion. U.S. approval for the transaction was obtained in March, and the companies expect to close the deal before year-end, subject to remaining required approvals. While the Company is still in the process of marketing other business units, the completion of the battery business sale alone will materially de-lever the Company as the sale price multiple of EBITDA is nearly twice that of current total leverage. The sale will also leave the Company with nearly $3 billion in cash, versus the current debt load of less than $5.5 billion. Based on management comments, the Company plans to use this cash to pay down debt and fortify the balance sheet. During the Company's July earnings conference call, the CEO stated, "I want to put some of these quarters behind us. I want to re-earn the trust of our investor base. I want to get the balance sheet very, very liquid and when my debt holder sees that, I think it's going to allow me to refinance at a very attractive rate. I think it's going to let me call some bonds cheaper than I can get them today and I think it'll be very prudent for our company as we get into calendar '19, but we will pay down a lot of debt. We will not sit on $3 billion liquidity." Conveniently, the two bonds with the highest coupons in the capital structure also happen to be the earliest maturities – the 7.75% Senior Notes due 1/15/22 and the 6.625% Senior Notes due 11/15/22, amounting to just under $1.5 billion in outstanding obligations. Both bonds are callable, but the call premiums for both are scheduled to decline over the next several months. Given the likelihood that each of these bonds will be repaid in the near future, we began purchasing both issues for the CrossingBrisdge Low Duration HY Fund in September. If the Company redeems both bonds in early 2019, the yield to take-out would be in the 3-5% range at current price levels. If the Company chooses to wait until later in 2019 because they feel they can do a more attractive global refinancing, the yield to maturity actually increases providing a cushion for potential extension.

Monitronics International ("MONINT") – Monitronics International is a provider of "do-it-for-me" and "do-it-yourself' residential security monitoring. It primarily competes against ADT Inc., Vivint Inc., and several emerging "do-it-yourself" products coming out of Silicon Valley. Monitronics' credit quality has come under stress due to three factors. First, recent regulatory action by the Federal Communications Commission has forced the residential security industry to pivot its marketing strategy away from traditional door knocking and cold calling towards "direct-to-consumer" digital channels. Since these measures were enacted, Monitronics has seen its customer count fall below 1 million, attrition rates rise to

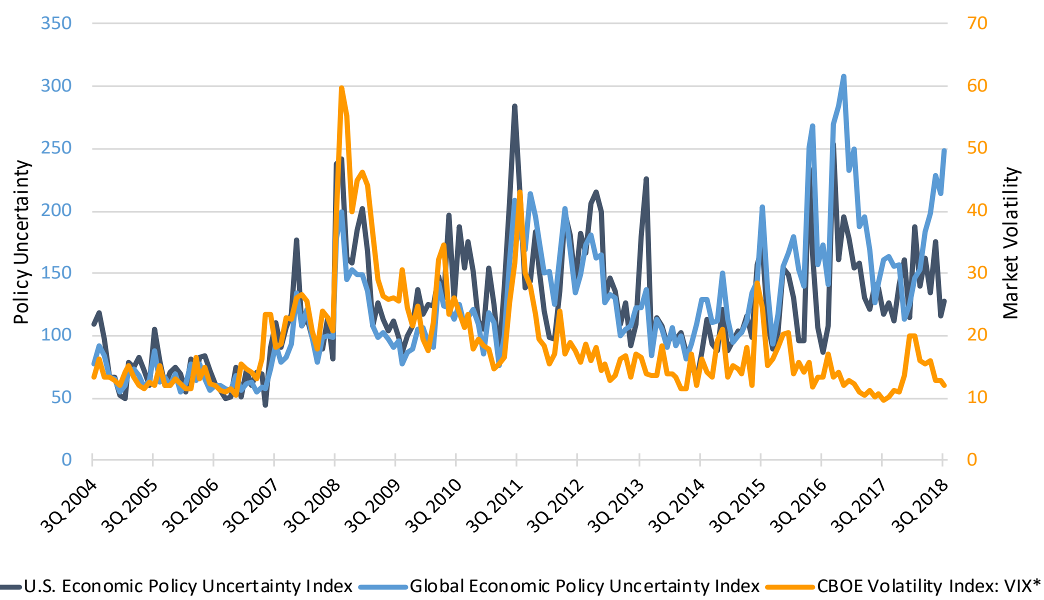
7 "Money good" is a term used by Cohanzick to describe debt it believes will be paid off in full under current market conditions and on a strict priority basis.

16% and free cash flow turn negative. Second, the senior secured bank loan is subject to a “springing maturity” such that, if any portion of the $585 million senior unsecured notes due 4/1/20 remain outstanding as of 10/4/19, the bank loan will be deemed to have matured as of that date. Third, the potential that the bank loan maturity is accelerated to October 2019, makes it more likely that the Company will receive a “going concern” assessment from its auditor - an event of default. Despite these concerns, we were attracted to the recurring revenue nature of the business and the continued product development, which may improve the Company’s profitability. Even in a bankruptcy scenario, we believe the bank loan’s principal and interest will be covered. Applying a “grapefruit analysis”[8] with higher attrition rates and an immediate price concessions, the net recurring monthly cash flow of the existing customer base should cover the bank debt. The CrossingBridge Low Duration HY Fund purchased a portion of the $1.1 billion Monitronics bank debt at the end of August for an 11.32% yield to the springing maturity or an 8.86% yield to the stated maturity. An exchange offer was proposed by the Company that would push out the maturity of the senior notes by several years, but it requires the consent of the holders of bank debt. Thus, the dance has begun. A group of loan holders, of which we are a part, made a counter-proposal, but the Company has rejected it. Failing an out-of-court solution, there is a possibility that the Company would file bankruptcy. In that circumstance, we believe that the bank loan is “money good”, and may benefit further if the loan converts to a roll-up DIP.[9] Although, our investment in the Monitronics term loan is not a simple situation, several paths exist in which we should earn an attractive return, albeit with potential mark-to-market volatility.

<u>Eastman Kodak (“KODK”)</u> - Kodak is a global commercial printing and imaging company for the graphic arts, entertainment, and commercial film industries. Having been left behind in the technological shift away from film-based photography as virtually everyone came to have a digital camera in their smart-phone, Kodak filed for bankruptcy in early 2012 and emerged in mid-2013. The Company exited its consumer-related businesses during the bankruptcy and is now focused on its commercial imaging operations and exploitation of its remaining portfolio of intellectual property. To fund its exit from bankruptcy and provide growth capital, the Company issued the $420 million Senior Secured 1st Lien Exit Term Loan due 9/3/19 (subsequently paid down to $393 million). Given the looming maturity, Kodak received a “going concern” assessment from its auditor in its 2Q18 financial statements and now lists the loan as a “current obligation” on its balance sheet. Management is intensely focused on de-leveraging and is seeking a way to repay the term loan. In early August, Kodak announced it will sell its flexographic equipment division, a leading producer of printing equipment and consumables for the consumer packaging industry. Kodak also entered into a non-binding letter of intent for a $400 million, 18-month bridge loan that would be used to refinance its existing term loan in conjunction with its asset sale. We expect the Company will be successful in the sale of the flexographic equipment business and believe Kodak’s other assets, including $132 million of domestically-held cash[10] provide value in excess of its term loan. In 3Q18, we added to our Kodak position in the CrossingBridge Low Duration HY Fund at a 12.87% yield-to-maturity. We recognize the potential for event and timing risk but remain hopeful that Kodak will find a way to repay the loan without hiccups. Ultimately, we are confident the Company will pay all principal and interest, but mark-to-market volatility is certain should a restructuring be required.

8 “Grapefruit analysis” is similar to a liquidating run-off analysis. The reason it is referred to as a “grapefruit analysis” is because one squeezes all of the juice out of a grapefruit and then disposes of the rind.
9 “DIP” stands for Debtor-in-Possession financing, a loan typically provided to a company in Chapter 11 that provides liquidity during the legal proceedings, assuring vendors and other creditors who extend credit during the bankruptcy that they will be paid. Such a loan usually has a super-priority security interest to provide greater assurance of repayment to lenders.
10 In addition, the Company has $143 million in cash located outside of the U.S., primarily in China and Brazil, the repatriation of which is subject to country-specific regulatory limitations.

Policy Uncertainty and Market Volatility H



In the 2017 BIS article cited at the beginning of this letter, the writers expressed their puzzlement that markets were so optimistic and volatility was so low notwithstanding that policy uncertainty was so high. Not much has changed since that time as volatility, reflected in the VIX index, remains historically low while policy uncertainty continues to trend higher. Thus, we marvel at this absurdity: "What, me worry?"

David Sherman and the CrossingBridge Team

POSTSCRIPT

Over the last several years, it has become popular in certain quarters to blame the loss of manufacturing jobs and the rise of social and economic inequality on the expansion of globalism and financial integration, seemingly rejecting David Ricardo's principal of "comparative advantage." Politicians should certainly take steps to try to make international trade fairer when inequities arise. However, it is of equal or more importance for policymakers to develop solutions that enable workers to participate in and benefit from the development of new industries that arise from technological advancements.

As we approach the mid-term elections, we encourage our fellow citizens and national leaders to focus on the things we have in common rather than those that divide us.

ENDNOTES

[A] Source: ICE BofAML US Corporate Bond Indicies
[B] Source: Merrill Lynch U.S. High Yield Master II Index
[C] Source: Bloomberg and ICE BofAML Indicies; The Institute for Supply Management (ISM) Manufacturing Index tracks sentiment among purchasing managers at manufacturing, construction, and/or services firms.
[D] Source: BAML Chartbook 8/31/2018
[E] As of 6/30/2018, our position in Kodak represented approximately 0.0% of the portfolio. As of 9/30/2018 our position in Kodak represented 1.25% of the portfolio.
[F] As of 6/30/2018 our position in Monitronics represented approximately 0.0% of the portfolio. As of 9/30/2018 our position in Monitronics represented approximately 0.35% of the portfolio.
[G] As of 6/30/2018, our position in Spectrum represented approximately 0.0% of the portfolio. As of 9/30/2018 our position in Spectrum represented 1.47% of the portfolio.
[H] Source: Chicago Board Options Exchange SPX Volatility Index (VIX), www.EconomicPolicyUncertainty.com and Baker, Bloom and Davis

DISCLOSURES

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

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

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company, and it may be obtained by calling 1-888-898-2780 or visiting our website at: https://www.crossingbridgefunds.com/literature. Read it carefully before investing.

***Definitions:** *The **ICE BofAML 0-3 Year US Treasury Index** is tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market with maturities less than three years. The **ICE BofAML 1-3 Year US Corporate Index** is a subset of the ICE BofAML US Corporate Index including all securities with a remaining term to final maturity less than three years. The **ICE BofAML US Corporate Index** tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. The **ICE BofAML 0-3 Year US High Yield Excluding Financials Index** tracks the performance of short maturity US dollar denominated below investment grade rating (based on an average of Moody's, S&P, and Fitch), at least 18 months to final maturity at the time of issuance, at least one month but less than three years remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and minimum amount outstanding of $250 million. It is not possible to invest directly in an index. The Chicago Board Options Exchange (CBOE) **Volatility Index, or VIX,** shows the market's expectation of 30-day volatility, and is a commonly used measure of market risk.*

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Mutual fund investing involves risk. Principal loss is possible. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Because the Fund may invest in ETFs and ETNs, they are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's and ETN's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Fund's ability to sell its shares. The value of ETN's may be influenced by the level of supply and demand for the ETN, volatility and lack of liquidity. The Fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks, and, depending upon the characteristics of a particular derivative, suddenly can become illiquid. Investments in Asset Backed, Mortgage Backed, and Collateralized Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

Diversification does not assure a profit nor protect against loss in a declining market.Diversification does not assure a profit nor protect against loss in a declining market.

It is not possible to invest directly in an index.

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