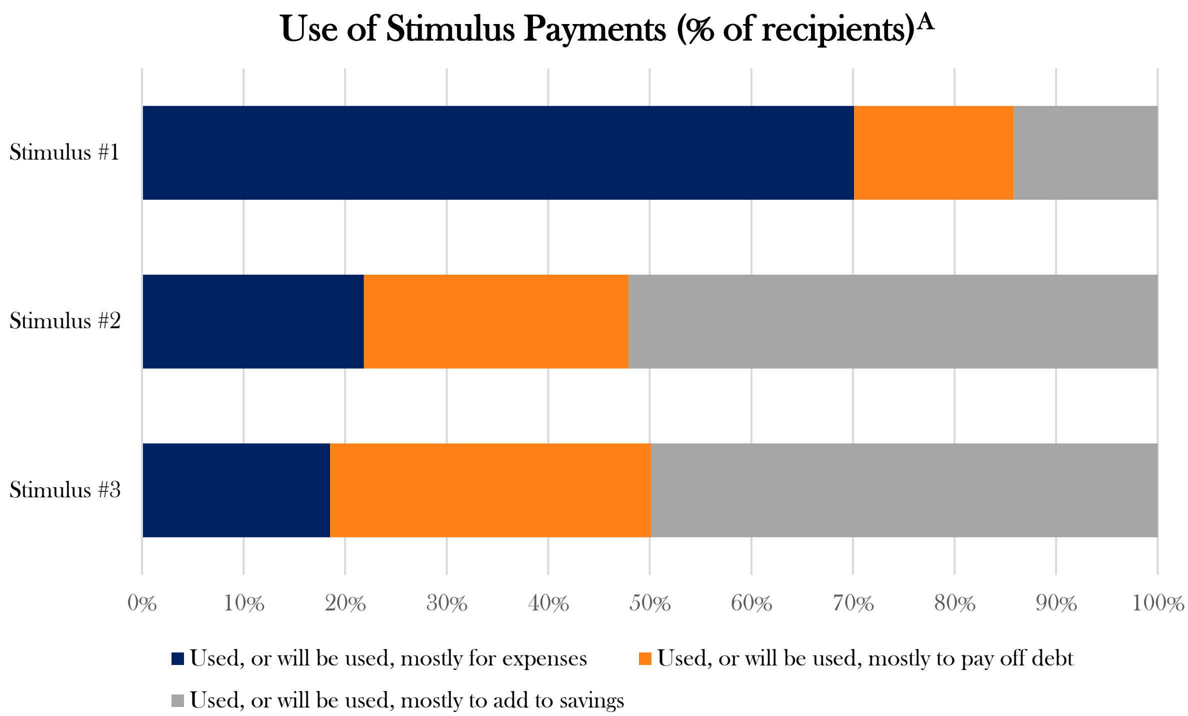
CrossingBridge 2Q21 Quarterly Commentary

Jubliee[1]

In the Old Testament, the last year of a 50-year cycle was considered a holy year of celebration, a jubilee[2] in which liberty was proclaimed, debts were forgiven, and mourning was replaced by joy.



In response to the onset of the COVID crisis in late March 2020, Congress passed the CARES Act, which directed cash payments to nearly 80% of American households, providing temporary peace of mind for those with limited savings and living paycheck to paycheck. Approximately 70-75% of households used their stimulus checks to cover daily expenses; for others, it was a windfall.[3] Nine

[1] "You shall count off seven Sabbaths of years, seven times seven years; and there shall be to you the days of seven Sabbaths of years, even forty-nine years. Then you shall sound the loud trumpet on the tenth day of the seventh month. On the Day of Atonement, you shall sound the trumpet throughout all your land. You shall make the fiftieth year holy and proclaim liberty throughout the land to all its inhabitants. It shall be a jubilee to you…" (*Leviticus 25:8–10*)

[2] For an interesting modern perspective see a thesis presented by Matthew Joseph Melazhakam in April 2021 entitled *Economic Growth, Social Justice, and the Bible: The Search for a New System,* Union Theological Seminary, https://academiccommons.columbia.edu/doi/10.7916/d8-0qff-tj73

[3] The CARES Act survey excludes the Paycheck Protection Program, which provided up to $349 billion in guarantees for forgivable business loans.

months later, a second round of stimulus checks was distributed with less than 30% of recipients using the cash to cover expenses, almost a mirror opposite of the first stimulus check; others used the proceeds to increase savings or pay down debt. A year later, in March 2021, President Biden signed the American Rescue Plan, which broadly distributed $1.9 trillion to those deemed to be in need. The portion of households using the stimulus cash for expenses had declined further and a greater portion was used to reduce debt, providing a boost to household net worth. Thus, while the first stimulus distributions were, for many, "life savers," the most recent allocations of government funds were much more akin to the Biblical jubilee.

Average Household Net Worth by Wealth Percentile[B]

Observation Date	Bottom 50%	50-90%	90-99%	Top 1%
2010	$5,425	$417,746	$2,381,093	$15,896,057
2018	$26,059	$592,426	$3,483,529	$25,162,844
2020	$40,311	$710,484	$4,221,472	$32,349,687

Household Net Worth Cumulative Growth

Observation Date	Bottom 50%	50-90%	90-99%	Top 1%
10 Year Growth	643%	70%	77%	104%
2018 - 2020	55%	20%	21%	29%

Household Net Worth Relative to 50-90%

Observation Date	Bottom 50%	50-90%	90-99%	Top 1%
2010	1%		5.7x	38.1x
2018	4%		5.9x	42.5x
2020	6%		5.9x	45.5x

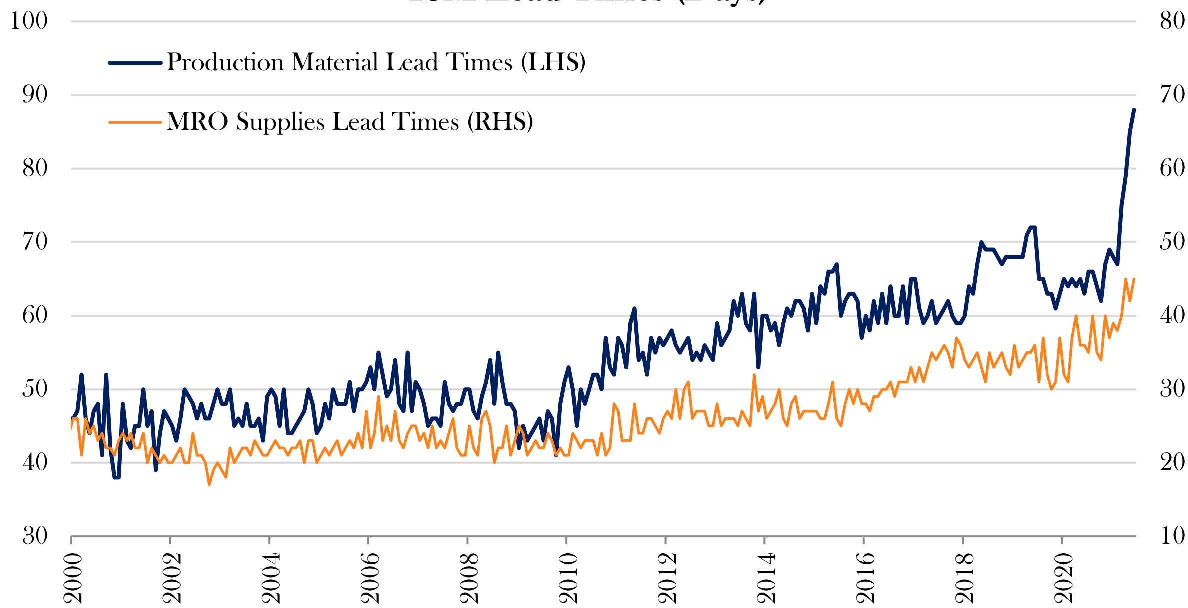
Since the Great Recession (in 2008), income inequality has been an increasing topic of discussion. In January 2014, Pew Research issued a report, *Most See Inequality Growing, but Partisans Differ Over Solutions*, in which 54% of surveyed respondents "favor(ed) taxing the wealthy to expand aid to the poor."[C] It is not surprising that the topic came to the forefront during the 2020 Democratic primaries. Candidates offered proposals to narrow the wealth gap including student loan forgiveness, guaranteed minimum income[4] and a wide range of tax code changes. Just as COVID accelerated the rise of on-line retail to the detriment of traditional brick & mortar stores, it also increased the

[4] Guaranteed minimum income is the concept of providing cash payments to specific, targeted groups of people, mostly those living below the poverty line, to address income inequality. Such programs have been tried in Newark, NJ, Tacoma, WA, Jackson, MS, Denver, CO, Cambridge, MA and Los Angeles, CA among other places.

willingness of central bankers and politicians to address income inequality.[5] We believe that the seeds have been sown and that we are likely to see a series of new policies intended to reduce the wealth gap. Thus, we are "bullish" on the American household.

It is notable, as shown previously, that all segments of the population have seen growth in average household net worth since the Great Recession with the bottom 50% seeing the largest increase by percentage over the last 10 years.[6] Although households in the 50-90% range have seen growth in net worth, it has been at a lower rate than the other segments and far below that experienced by the bottom 50%. Thus, the advance of Trumpism may partly be attributable to this portion of the population feeling that they are falling behind relative to other groups. At the upper end, among the 1%-ers, net worth growth is more likely a reflection of assets appreciating faster than consumption rather than income growth; the rich have gotten richer because their money is working for them.

ISM Lead Times (Days)[D]



Source: Haver, JEF Economics. MRO: Maintenance, Repair and Operating supplies

The massive influx of stimulus, both monetary and fiscal, has led to widespread discussion of the level and duration of inflation: is it only transitory (the collective view of the Federal Reserve) or is it

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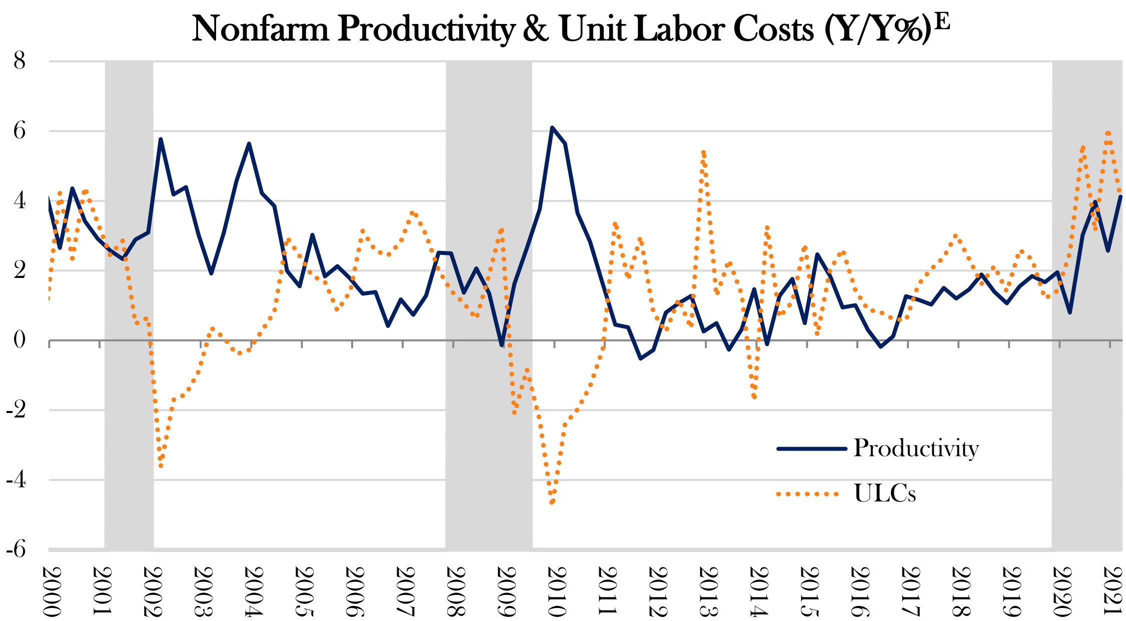
[5] The trend continues with more stimulus in the form of proposed multi-trillion-dollar infrastructure plans. Although Democrats and Republicans may disagree on the size and details, proposals from both sides reach beyond "pick and shovel" projects to aid their constituencies and help them narrow the wealth gap.

[6] Although Democrats tend to produce the most rhetoric on the topic of wealth inequality, both major political parties have expressed concern on the subject. Nevertheless, during the Trump administration, from the end of 2016 through 2020, the bottom 50% experienced the greatest increase in average household net worth, +115%, triple the rate of the next 49% and more than double the rate of increase for the top 1%.

likely to become more lasting? As shown in the table above, since the Great Recession, lead times for production materials and industrial goods have been lengthening. This has likely been caused by economic growth outstripping working capital as corporations were reluctant to build inventories, concerned about modest growth and the potential for deflation. Recent trade disputes with China aggravated the situation, further pushing out lead times. Most recently, the reopening of the global economy following the COVID-related shutdowns has been hampered by bottlenecks in production and transport, as well as labor shortages, affecting a wide range of industries including food, apparel, packaging and medical products.[7] Resulting shortages, coinciding with rising demand, have caused prices to rise, giving way to the "transitory" inflation acknowledged by the Federal Reserve.

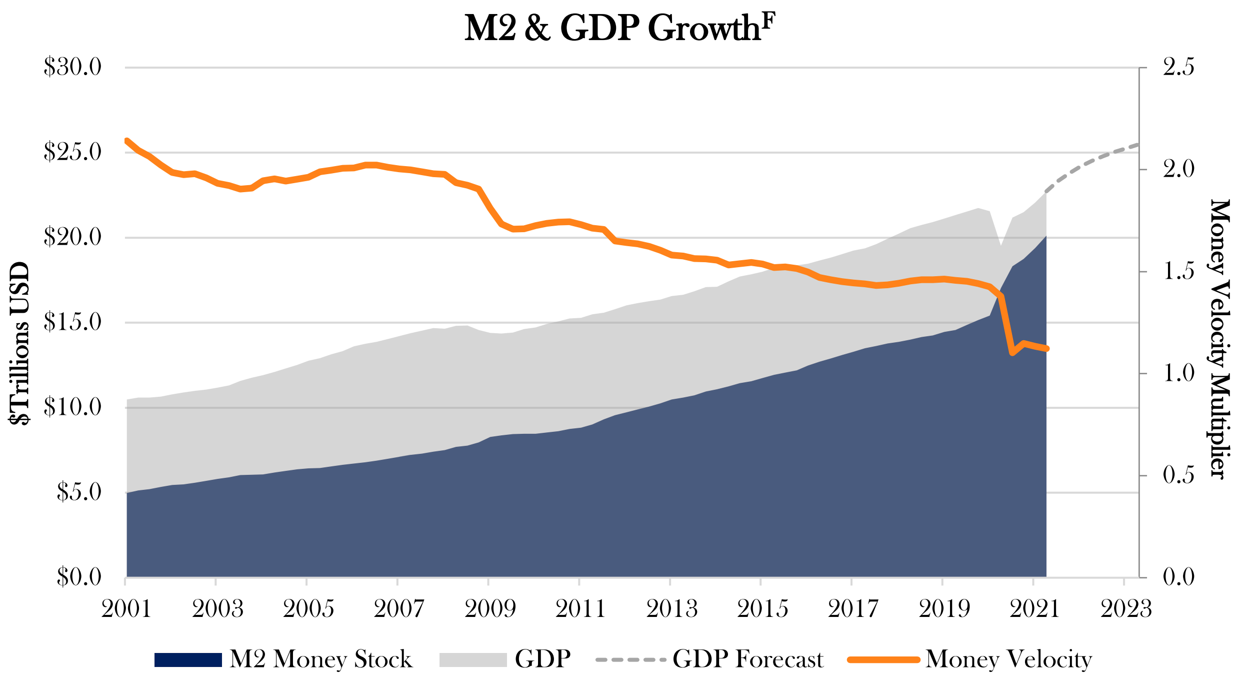


Folks may forget, but, prior to the onslaught of COVID, the U.S. was experiencing a strong economic expansion with a tight labor market reflected above in the rise in unit labor costs (ULCs). Moreover, ULCs were advancing at a rate slightly greater than productivity.[8] The ULC increase accelerated during COVID, but this may be misleading because lower cost, labor-intensive service jobs were lost while higher paid workers were able to work from home. Further, technology advances that have enabled remote work have also enhanced productivity. Upon re-opening, government relief programs have created disincentives for many lower paid workers to return to work, which may be partly responsible for ongoing labor shortages. Higher wages may be required to bring them back. With respect to inflation, an increase in wages that leads to an increase in demand without a

[7] For example, the shortage of semiconductors has impacted the auto industry (and its suppliers) leading to temporary manufacturing shutdowns, a rise in the price of used cars and a shortage of rental cars.

[8] Productivity is defined in economics as the ratio of the volume of output to the volume of inputs. It measures how efficiently inputs, such as labor, are being used to produce a given level of output.

similar increase in the supply of goods may cause inflation to be more permanent. This effect may be more muted if higher wages are, to some degree, directed toward debt reduction and increased saving as was seen with the latest rounds of stimulus. Inflation may also be held back if increased use of technology increases productivity or reduces the cost of goods.



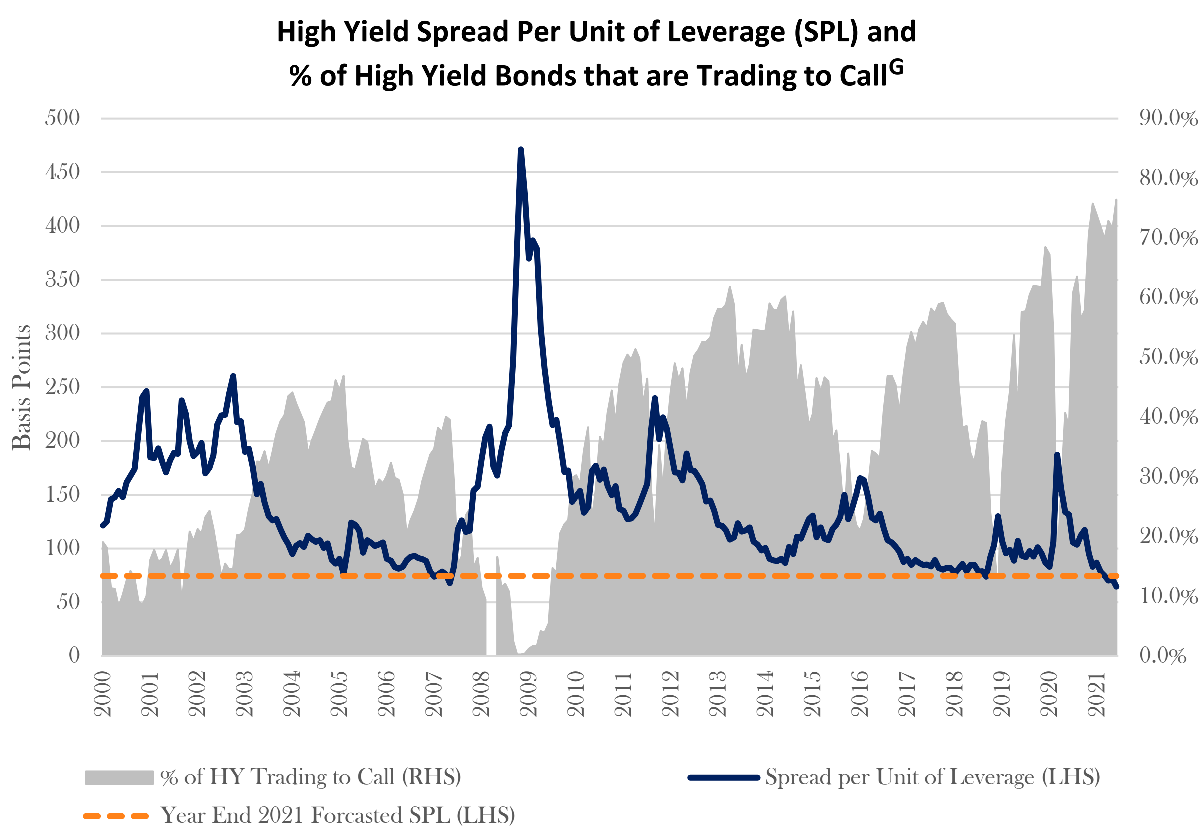
Money supply[9] and GDP[10] growth are generally correlated. Historically, "pump-priming" in the form of fiscal and monetary stimulus has been a precursor to a rise in inflation when it spurs an increase in spending reflected in increased money velocity.[11] The devil is in the details; an increase in the money supply that only flows into savings will not increase the velocity of money in the economy, contradicting the belief that stimulative policies always spur inflation. As illustrated above, money supply has been steadily growing but the primary concern since the Great Recession (in 2008) has been deflation. Supporting this concern is the significant decline in money velocity. Unlike the first COVID stimulus checks, the subsequent disbursements have been directed toward debt repayment and savings, of which, we believe, a substantial portion has found its way into real estate and financial

[9] When discussing money supply, economists are typically referring to M2, consisting of M1 (currency in circulation (notes and coins, travelers' checks, demand deposits, and checkable deposits) plus small-denomination time deposits (amounts of less than $100,000) less IRA and Keogh balances at depository institutions and balances in retail money market funds less IRA and Keogh balances at money market funds.
[10] Gross domestic product (GDP) is the market value of goods and services produced by labor and property located in the U.S. in a specified period.
[11] Simplistically, money velocity reflects the number of times that a dollar is used for the purchase of goods and services in a given time period. Technically, it is the ratio of nominal GDP to the average of M2 money stock.

assets (as well as crypto currencies). Thus, whether inflation will be transitory or ongoing will partly hinge on the velocity of money – will the population continue to pad savings accounts or will increased cash flow be used for consumption? There is no consensus among financial pundits.

We have no idea whether inflation will be transitory or long-term. We have no idea what level of sustained economic growth will be realized. That said, we strongly believe the following:

- **For more permanent inflation to take root, we need rising income that turns into increased spending.**
- **Central bankers and politicians are going to pursue policies that will decrease the economic disparity by broadening household wealth.**
- **Central bankers and governments have strong incentives to keep interest rates low. As such, the yield curve is likely to remain steep (but if it flattens, pick up the phone and call us for an update).**



The historically low interest rate policy (sometimes referred to as "the Fed put") and the highly anticipated rebound in the economy have driven asset prices to new heights as investors fear missing out. As illustrated above, the portion of the high yield market trading at a yield-to-call rate is at a 20+ year high as capital markets are wide open and any CFO who can refinance debt at a lower rate is taking advantage of the market. Concurrently, investors have become more complacent in their required compensation for credit risk. As shown above, the high yield spread per unit of leverage has fallen to match the lows seen over the last 20 years. In such an environment, it is as important as ever to be a "bottom up," credit-specific investor. The good news is that the universe of investment candidates is growing as turbocharged investment bankers feed the market with refinancings, mergers & acquisitions and access for first-time debt issuers. In this spirit, we provide several examples of investment commitments made in 2Q21 below:

Dell Technologies Inc (DELL)[ii] – Dell Technologies is a global technology company that develops, sells and supports various computer products including personal computers, data storage, servers, and networking devices. In 2016, the company acquired EMC Corp with a focus on data storage, cloud computing, and virtualization. While acquiring EMC, Dell obtained an ~80% stake in VMWare. Since then, Dell has been committed to reducing debt while delivering record profitability, with a $20.9 billion reduction in core debt since the EMC acquisition closed. This de-leveraging has resulted in a core leverage ratio of 2.3x as of the first quarter of Dell's 2021 fiscal year. On April 14th, 2021, Dell announced a spin-off of VMWare in which VMware agreed to pay a special dividend of $11.5-$12.0 billion to shareholders. Dell committed to further debt reduction in the fiscal year, including proceeds from the special dividend, and is targeting achievement of an investment grade rating after completion of the VMware spin-off. In the second quarter, Dell redeemed the 5.875% senior notes due 6/15/21; the CrossingBridge Low Duration High Yield Fund has been a long-term holder of these bonds. The Fund purchased the 7.125% senior notes due 6/15/24 in 2Q21 based on the view that this bond is likely to be redeemed with the proceeds from the VMware spin-off in 3Q21. If the company chooses to wait, we will benefit from the higher yield to the next call as well as possible spread compression resulting from a likely credit upgrade.

Hertz (HTZ)[i] – Hertz is a global car rental company that filed Chapter 11 in May 2020 after COVID shut down virtually all domestic and international travel. The CrossingBridge Low Duration High Yield Fund participated in the DIP financing, due December 31, 2021, priced at LIBOR + 725 bp. Issued to ensure liquidity during the bankruptcy, this loan was secured by all assets other than the Donlen vehicle leasing and fleet management operation, expected to be sold during the bankruptcy, and vehicles that were reserved as collateral for fleet financings. This loan had super-senior priority for repayment at the conclusion of the bankruptcy. As the impact of COVID began to fade in late 2020 and early 2021, operating performance began to improve, leading to several private equity firms making competitive proposals to repay creditors and fund the company's exit from Chapter 11. As this process developed, it became apparent that the 7.625% Second Lien Notes would be repaid in full including post-petition interest calculated at the coupon rate. In April 2021, the Fund began to purchase these bonds at a price of 108, with the expectation that they would be repaid, with interest, when the Plan of Reorganization went effective, likely by the end of 2Q21 or early in 3Q21. Hertz exited Chapter 11 on June 30, 2021 and, as part of its exit, repaid the DIP at par and paid off the bonds.

At Home (GRIDGE)[J] - At Home is a big-box home furniture and decor retail chain. Like most other retailers, the company was forced to shut virtually all of its stores due to COVID beginning in late March 2020. In August 2020, the company issued a $275 million, 8.75% senior note to ensure sufficient liquidity. The CrossingBridge Low Duration High Yield Fund participated in the initial offering. In March 2021, the CrossingBridge Low Duration High Yield Fund began purchasing this bond based on At Home's improving performance resulting from favorable quarantine-driven consumer behavior trends and our recognition that the bond had "cushion"[12] characteristics that made it a likely near-term refinancing candidate. In May 2021, Hellman & Friedman, a private equity firm, announced plans to take At Home private at a $2.8 billion valuation, the change in control requiring early retirement of the bond. Based on our expectation that the entire capital structure would be refinanced when the acquisition closed, likely by the end of 3Q21, we added to our position in the bonds.

Buzzfeed (ENFA)[K] - BuzzFeed is a new-age internet media company that distributes digital content across social media channels and 3rd party platforms. Its brands include Buzzfeed, Tasty, Huffpost, and many others with massive reach and engagement, especially among Millennials and Gen Z-ers. The company is going public via a merger with a SPAC[13], 890 5th Avenue Partners. Revenue has been flat while EBITDA has grown over the last two years; both are expected to increase through growth in advertising sales and monetization of commercial relationships. Capital from the SPAC and a PIPE[14] is being used to complete the acquisition of Complex Networks, a content producer that will deepen Buzzfeed's engagement with portions of its existing demographic and expand the company's reach into several new audiences. CrossingBridge Low Duration High Yield Fund committed to participate in the PIPE, a 5-year 7% convertible note with a conversion price of $12.50 per share. With 3.25x projected leverage, we are comfortable with the credit and believe there is potential for equity appreciation to further enhance returns. The transaction is expected to be completed in 3Q21.

[12] A "cushion" bond is a callable bond with a high coupon that provides a higher yield the longer it remains outstanding.
[13] A special purpose acquisition company, or "SPAC", is a publicly traded "blank check" company formed with the intent to purchase an unidentified business in the future. Investors purchase freely tradeable shares collateralized by the cash proceeds, which are escrowed and invested in U.S. Treasury bills. The corporate by-laws require that the accumulated cash be returned to investors at a pre-determined liquidation date (usually two years from issuance) or following a "de-SPAC-ing" event. Such an event occurs when shareholders vote in favor of a merger or acquisition. However, each individual investor can vote to receive its pro rata portion of cash rather than shares in the new entity. Effectively, this mirrors a bond with a stated maturity that is callable sooner upon a de-SPAC-ing event. Yield-oriented investors are attracted to these vehicles because they offer yields similar to T-bills, a "maturity" based on the investor's ability to redeem at trust value and an embedded call option on a future business combination. Reflecting the amount of capital raised in the SPAC's initial public offering, the initial offering price, typically $10.00 per share approximates the trust collateral value and demarcates whether the SPAC is trading at a premium or discount to trust value.
[14] A private investment in a public equity, or "PIPE", is the private purchase of shares of a publicly traded stock, often at a discount to the market price. A structured PIPE may take the form of common stock, convertible preferred shares or a convertible bond.

Surely, in certain geographies in the U.S. and in many countries, COVID remains a danger. Yet with the success of vaccination efforts in the U.S., there are signs of a jubilee.[15] Life is beginning to return to normal: people are able to attend baseball games, travel to see loved ones and go back to their offices. Moreover, the series of massive government stimulus packages and the policies of the Federal Reserve have permitted the U.S. economy to rebound rapidly, producing economic growth not seen since the 1950's.

Shouting for joy,[16]

DKS

David Sherman and the CrossingBridge Team

[15] For a provocative and timely economic discussion, see *It's Time for a Debt "Jubilee",* Institute for New Economic Thinking, Richard Vague, September 11, 2020, https://www.ineteconomics.org/perspectives/blog/its-time-for-a-debt-jubilee

[16] The Latin origin of jubilee is the verb *iubilo* meaning "shout for joy".

Endnotes

[A] Federal Reserve Bank of St. Louis. Federal Reserve conducted June 11-16, 2020, January 6-18, 2021 and March 17-29, shortly after each of the COVID-related stimulus distributions began.

[B] Federal Reserve Bank of St. Louis

[C] https://www.pewresearch.org/politics/2014/01/23/most-see-inequality-growing-but-partisans-differ-over-solutions/

[D] *Mid-Year Outlook Update: Stubborn Inflation*, Jefferies, June 9, 2021 (Haver Economics, JEF Economics. MRO: Maintenance, Repair and Operating supplies)

[E] *Mid-Year Outlook Update: Stubborn Inflation*, Jefferies, June 9, 2021 (Haver Economics, JEF Economics)

[F] Federal Reserve Bank of St. Louis

[G] *High Yield Credit Chartbook*, Bank of America, July 1, 2021 and *1Q21 High Yield and Loan Fundamentals*, Morgan Stanley, July 6, 2021

[H] As of 3/31/2021 our position in Dell Technologies represented 1.25% of the Low Duration High Yield Fund. As of 6/30/2021 our position in Dell Technologies represented 1.81% of the Low Duration High Yield Fund.

[I] As of 3/31/2021 our position in Hertz represented 2.74% of the Low Duration High Yield Fund. As of 6/30/2021 our position in Hertz represented 3.16% of the Low Duration High Yield Fund.

[J] As of 3/31/2021 our position in At Home represented 0.37% of the Low Duration High Yield Fund. As of 6/30/2021 our position in At Home represented 1.07% of the Low Duration High Yield Fund.

[K] As of 3/31/2021 our position in BuzzFeed represented 0.00% of the Low Duration High Yield Fund. As of 6/30/2021 our position in BuzzFeed represented 0.00% of the Low Duration High Yield Fund.

DISCLOSURES

The prospectus for the CrossingBridge Low Duration High Yield Fund can be found by clicking here. To obtain a hardcopy of the prospectus, call 855-552-5863. Please read and consider the prospectus carefully before investing.

The Fund is offered only to United States residents, and information on this site is intended only for such persons. Nothing on this website should be considered a solicitation to buy or an offer to sell shares of the Fund in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction.

Definitions: **The S&P 500, or simply the S&P**, is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the united states. The **ICE BOFA Investment Grade Index** tracks the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market. The **ICE BOFA High Yield Index** tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. **EBITDA** is a company's earnings before interest, taxes, depreciation, and amortization is an accounting measure calculated using a company's earnings, before interest expenses, taxes, depreciation, and amortization are subtracted, as a proxy for a company's current operating profitability A **Basis Point (BP)** is 1/100 of one percent. **Pari-Passu** is a Latin term that means 'on equal footing' or 'ranking equally'. It is an important clause for creditors of a company in financial difficulty which might become insolvent. If the company's debts are pari passu, they are all ranked equally, so the company pays each creditor the same amount in insolvency. **LIBOR** is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another. **Yield to Maturity (YTM)** is the total return anticipated on a bond (on an annualized basis) if the bond is held until it matures. **Free cash flow (FCF)** is the cash a company produces through its operations, less the cost of expenditures on assets. In other words, Free Cash Flow is the cash left over after a company pays for its operating expenses and capital expenditures. **Duration** is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. **Debtor-in-possession** (DIP) financing is a special kind of financing meant for companies that are in bankruptcy. Only companies that have files for bankruptcy protection under Chapter 11 are allowed to access DIP financing, which usually happens at the start of a filing. DIP financings are used to facilitate the reorganization of a debtor-in-possession (the status of a company that has filed for bankruptcy) by allowed it to raise capital to fund its operations as its bankruptcy case runs its course. **Yield to Call (YTC)** refers to the return a bondholder received if the bond is held until the call date, which occurs sometime before it reaches maturity.

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. 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. Investing in commodities may subject the Fund to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. Shares of closed-end funds frequently trade at a price per share that is less than the NAV per share. There can be no assurance that the market discount on shares of any closed-end fund

purchased by the Fund will ever decrease or that when the fund seeks to sell shares of a closed-end fund it can receive the NAV of those shares. There are greater risks involved in investing in securities with limited market liquidity. Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a CrossingBridge Advisors, LLC 10 change in interest rates. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security. Any direct or indirect reference to specific securities, sectors, or strategies are provided for illustrative purposes only. When pertaining to commentaries posted by CrossingBridge, it represents the portfolio manager's opinion and is an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the fund or any security in particular. Specific performance of any security mentioned is available upon request. Please click here for a full holdings report as of the most recent month-end. The performance data quoted represents past performance. Past performance does not guarantee future results. 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 914-741-9600. Please click here for current standardized performance as of the most recent quarter-end. Diversification does not assure a profit nor protect against loss in a declining market.

A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. A bond is a debt investment in which an investor loans money to an entity that borrows the funds for a defined period of time at a fixed interest rate. A hedge fund is a private investment vehicle that may execute a wide variety of investment strategies using various financial instruments.

A stock may trade with more or less liquidity than a bond depending on the number of shares and bonds outstanding, the size of the company, and the demand for the securities. The Securities and Exchange Commission (SEC) does not approve, endorse, nor indemnify any security.

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