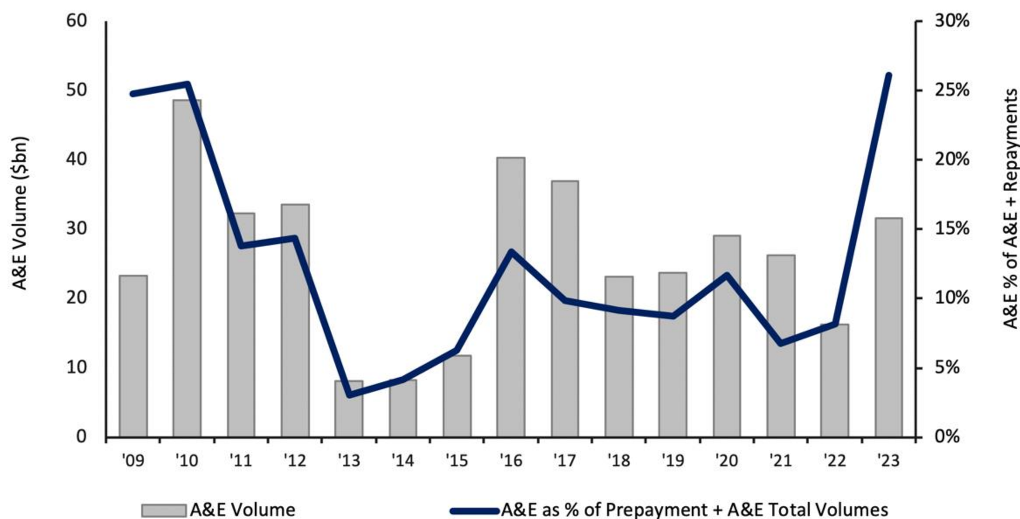
CROSSINGBRIDGE
ADVISORS, LLC

CrossingBridge Funds Q2 2023 Commentary

*In 1971, FRAM[A] oil filters launched a TV commercial campaign cautioning car owners to spend a few dollars for a new oil filter now rather than face an expensive engine rebuild down the road.[1] The scare tactic, **"You can pay me now, or pay me later"** effectively went viral (before that was a thing). The phrase has entered our lexicon to mean that it would be better to head off or resolve problems today rather than allow them to grow and become more costly in the future.*

In the credit markets, **we are seeing a rising incidence of liability management transactions (LMTs), particularly "amend & extends" (A&Es).** Over 28% of leveraged loans and high yield bonds are scheduled to mature within three years.[B] In response, leveraged loan investors have increasingly been willing to extend maturities in exchange for some combination of partial principal repayments, higher coupons, pledges of additional collateral, tighter covenant packages, or other credit enhancements.

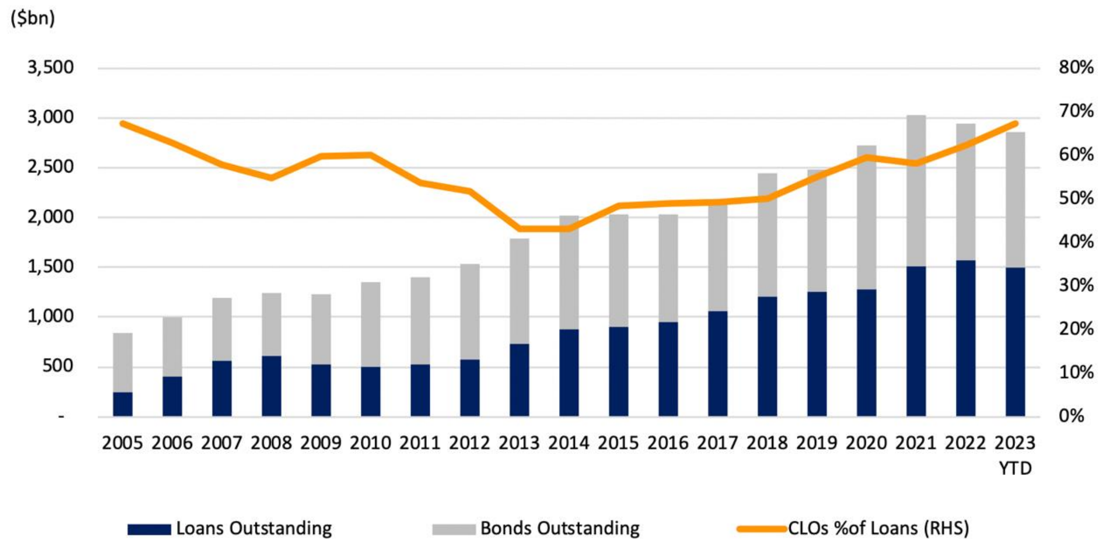
Amend & Extend Transactions[C]



[1] The FRAM ads were eventually cited by the National Advertising Review Board as "puffery" and misleading as they unduly raised fears among car owners by emphasizing the cause-effect relationship between failure to use a FRAM oil filter and the probability of costly repairs.

As shown above, this has led to a sharp rise in the dollar volume of A&Es in 2023, year-to-date, relative to all of 2022, and an increase in A&E's as a percentage of prepayments plus A&E's, reflecting borrowers' desire to extend maturities with existing lenders rather than try to refinance in a tough market. The last period when a significant increase in A&E's occurred was subsequent to the Great Recession of 2008-09.

U.S. High Yield Corporate Debt Market[D]



Leveraged loans are approximately 53% of the U.S. high yield corporate debt market at 2Q23, versus only 29% in 2005.[E] Collateralized loan obligations (CLOs)[2] are the primary purchasers of leveraged loans which have been the underlying capital flow to support this growth. Per the graph above, loans held by CLOs are currently 67% of the leveraged loan market. Although CLOs are not usually required to mark their underlying holdings to market, they have stringent rules governing the composition of their underlying portfolios and may only purchase loans during their investment period. Sometimes these requirements lead to uneconomic behavior by CLO managers.

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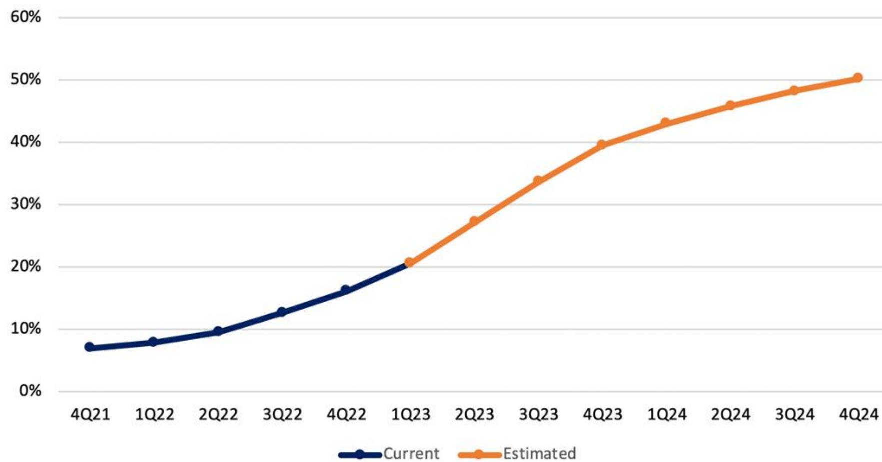
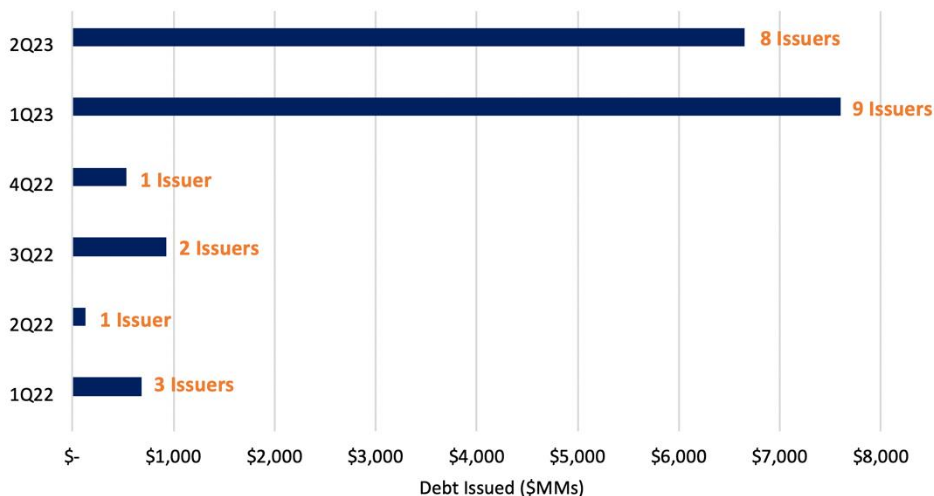
[2] A CLO, or Collateralized Loan Obligation, is a structured product consisting of a portfolio of leveraged loans. CLOs raise capital by issuing various tranches of debt and equity with the proceeds used to purchase a diversified pool of syndicated leveraged loans. Cash flows provided by the underlying portfolio's interest and principal payments are distributed to debt and equity tranches according to a priority-based waterfall. Debt tranches (typically, investment grade) are created with various attachment points for potential loss. Tranches at the top of the waterfall have higher credit rating and earn a lower interest rate than lower priority tranches. CLOs have very specific portfolio criteria with respect to underlying investments: credit rating, industry concentration, single issuer exposure, etc.

% of CLOs Out of Reinvestment Period[F]



Typically, a CLO has a maximum life of 13 years including a five-year reinvestment period and an eight- year runoff or harvest period. **At the end of 1Q23, industry experts[G] estimate that approximately 20.6% of outstanding U.S. CLOs (by dollar value) had reached the end of their investment period.[3] By the end of 2023, nearly 40% of existing CLOs are projected to be in their harvest period and, by the end of 2024, over 50% are expected to be limited in this way. Consequently, it is imperative for the health of the leveraged loan market that new CLO issuance remains robust to replace the runoff of existing CLOs. Herein lies the rub.**

Bond Issues to Paydown Bank Debt[H]



[3] CLOs have hard maturities requiring liquidation. In order to meet those maturities, they have specific dates after which they are no longer permitted to reinvest their capital.

As more CLOs are entering their harvest periods, we are seeing an increasing number of LMTs among leveraged loan borrowers in which they issue bonds to partially repay loans. In some cases, the lenders' requirement that the LMT include a partial repayment of the outstanding loan may be risk mitigation as they may want to reduce exposure to a deteriorating credit. In other cases, CLO lenders may require repayment as they may be unable to extend the maturity because of their own reinvestment period coming to an end. As an example, in May 2023, Heartland Dental[I] completed an A&E with respect to its $2.35 bn loan due in April 2025. In this transaction, the lenders agreed to extend the maturity on $1.38 bn of first lien loans to April 2028, while $426 mm of the original loan stayed outstanding. As a concession to the lenders, the company repaid over $540 mm of the original loan with proceeds from a $535 mm 10.35% first-lien bond, due April 2028, as well as issuance of new equity.[J]

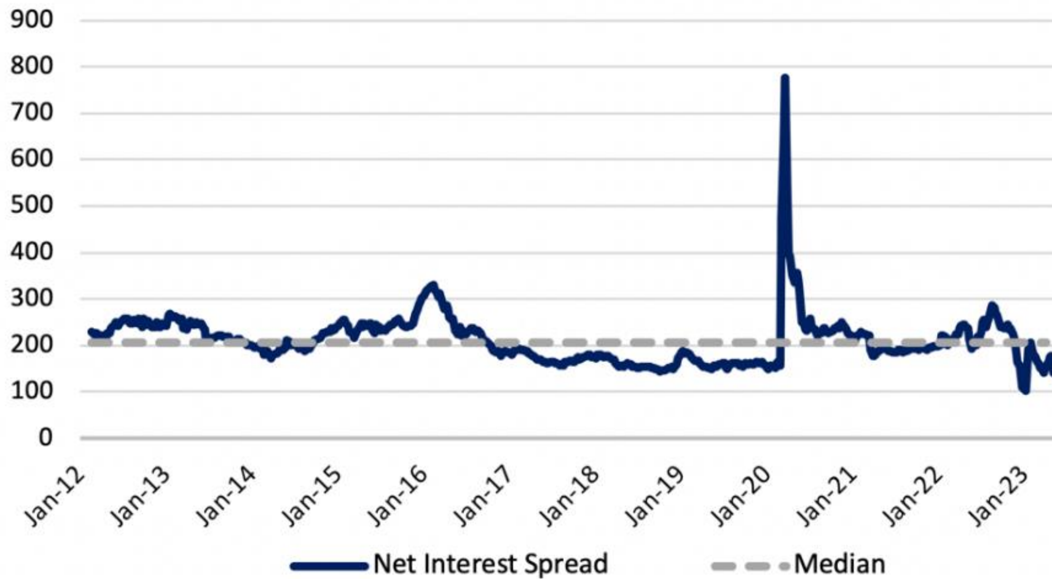
New Issue Comparison[K]

	CLOs		CMBS		CMBS Spread Advantage
	Credit Stack	**Spreads (bps)**	Credit Stack	**Spreads (bps)**	
AAA	60%	**168**	49%	**157**	**-11bps**
AA	12%	**228**	11%	**257**	**+29bps**
A	6%	**315**	3%	**513**	**+198bps**
BBB	6%	**502**	2%	**933**	**+431bps**
Below BBB	4%	**909**	5%	**1090**	**+181bps**
Equity	12%		30%		

As discussed in our 1Q23 letter, capital flows favor assets with the highest risk-adjusted returns. Investors that have been large buyers of investment grade CLO debt are now able to earn significantly better yields in newly issued commercial mortgage-backed securities (CMBS)[4] debt of comparable quality. In the AAA tranche, CMBS debt offers slightly less spread for much higher credit quality based on loan-to-value (LTV). For tranches below the AAA tranche, CMBS yields are, on average, significantly higher with better LTV. **CLO debt investors may react to this by demanding higher spreads, which is likely to put significant pressure on returns to CLO equity investors.**

[4] Expanding our view beyond the point that leveraged loans are entering a period of "Amend and Extend", Bloomberg Businessweek highlighted the much more serious issue in the commercial real estate market appropriately entitled *The 'Extend and Pretend' Real Estate Strategy Is Running Out of Time* by Patrick Clark on June 23, 2023.

CLOs Net Interest Spread[L]



CLO net interest spread is the difference between the funding cost of a CLO's debt and the yield earned on its underlying assets. As shown above, current net interest spread is tight at 135 bp in comparison to the median spread of 207 bp and the recent high of 280 bp in September 2022.[M] Simplistically, a CLO equity investor's return is the net interest spread less future net portfolio losses multiplied by the structure's inherent leverage, typically 8.3x. This implies an 11.2% return on equity[5] before inclusion of the impact of future credit losses. **Considering that market pundits are waiting for the recession and the next distress cycle, CLO issuance is likely to be less robust in the near future.**

The graph below illustrates an increase in the distressed cycle, which we believe is likely to be slower moving and last longer than previous cycles – think "slow burn."

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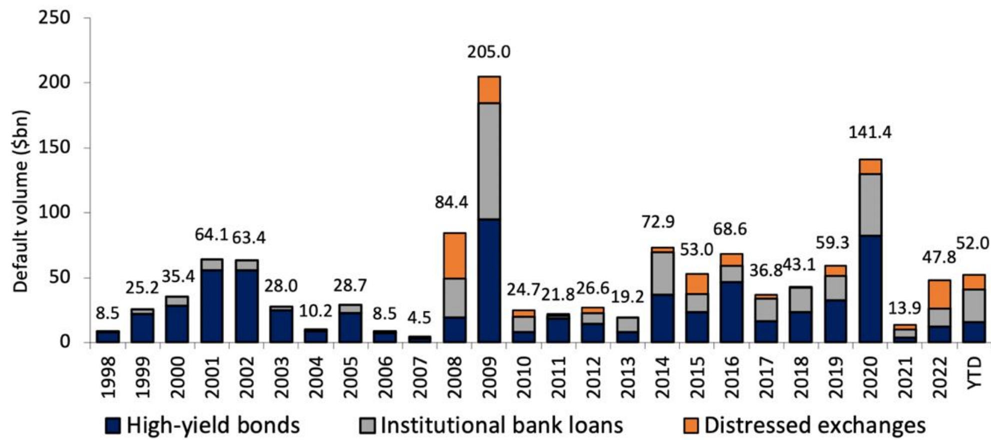
[5] Leverage of 8.3x multiplied by 135 bp, the net interest spread, equals 11.2%.

Annual Default Volume[N]



Historically, LMTs have often been unable to resolve credit stress. Recently, Fitch Ratings[O] examined 29 issuers that completed LMTs between 2014 and February 2023, of which seventeen were deemed to be defaults. The Fitch study brings to light the downside of "pay me later":

- 14 of the issuers had ratings of CCC or below, showing no improvement in credit quality.
- 4 of the issuers were no longer rated.
- 2 of the issuers had minor credit upgrades.
- 9 of the issuers were rerated to single-B, but 5 of these were upgraded only after going through bankruptcy.

Further, according to the Fitch study, the largest lenders often crafted terms advantageous to themselves to the detriment of other lenders. This **"creditor on creditor violence" is reaching extreme levels, twisting the bankruptcy process in a perverse way in opposition to its original intent.**[6] Sidebar – For the distressed investor, this adds a whole new element to *caveat emptor*.

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[6] For a good read on this topic, read "*The Caesars Palace Coup: How a Billionaire Brawl Over the Famous Casino Exposed the Corruption of the Private Equity Industry,"* by Sujeet Indap and Max Frumes (2021).

Considering all of the above, we offer the following observations:

Leveraged loans are currently attractive:

- Demand for leveraged loans is down due to a decline in CLO formation.
- Floating rate loans are providing high yields due to the dramatically inverted yield curve. **We continue to believe that rates will remain higher and for longer than implied by the forward interest rate curve**, allowing us to take advantage of the mispricing relative to fixed rate debt.

LMTs will be used increasingly as the influence of CLOs declines:

- In some circumstances, an LMT will result in a full or partial repayment ahead of maturity, increasing the rate of return on an investment that was purchased at a discount to par.
- The "wall of worry" of maturities in the loan market will increasingly be met by the issuance of new bonds. These bonds are likely to have higher yields, better collateral, and covenant protections similar to leveraged loans.

The current interest rate environment will spur corporate events that are likely to present opportunities:

- Companies with significant portions of floating rate debt are beginning to show signs of stress. In-depth analysis of these situations can reveal attractive investments.
- Debt issued as part of restructuring or recapitalization often has higher yields and good covenant packages but is overlooked or misunderstood by many high yield investors.

With respect to the portfolio, **we remain nimble**. **At the end of 2Q23, we had elevated levels of "dry powder"[7]. If high yield spreads tighten and the market rallies, we may increase our level of dry powder to take advantage of what we believe will be a correction thereafter.** We had a healthy position in leveraged loans and are looking to add. At the same time, we are selectively nibbling in the CMBS market. Based on our expectation of increasing volatility, **the portfolios are likely to continue experiencing above normal turnover as we adapt to reflect the changing environment.**

[7] We define "Dry Powder" as cash, cash equivalents, pre-merger SPACs, and securities maturing in less than 90 days.

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CrossingBridge Portfolio Summary – June 30, 2023

	% of Portfolio			
	CrossingBridge Ultra-Short Duration Fund	CrossingBridge Low Duration High Yield Fund	RiverPark Strategic Income Fund	CrossingBridge Responsible Credit Fund
Leveraged Loans	4.1%	15.4%	17.0%	19.5%
CMBS	0.2%	0.7%	3.6%	0.0%
Dry Powder	47.1%	26.1%	26.7%	14.4%

	Yields & Durations			
	CrossingBridge Ultra-Short Duration Fund	CrossingBridge Low Duration High Yield Fund	RiverPark Strategic Income Fund	CrossingBridge Responsible Credit Fund
YTW	6.30%	8.70%	9.26%	9.26%
Duration	0.48	0.89	0.95	0.99
YTM	6.57%	9.21%	10.10%	9.95%
YTM Duration	0.59	1.46	1.72	1.78

This letter may be a little "wonky" for some. But, since we are bottom-up investors, it is important to get into in the minutiae. We encourage active dialogue with our investors and invite them to call with us.

Focusing on getting paid now, not later,

David K. Sherman and the CrossingBridge Team

Post-script: On 5/12/23, CrossingBridge Advisors, LLC completed the reorganization of the RiverPark Strategic Income Fund from the RiverPark Funds Trust into the CrossingBridge fund family. In turn, CrossingBridge is now the Adviser to the Fund. In order to avoid confusion for investors as the Fund approaches its 10-year anniversary on September 30, 2023, we decided to keep both the name and the tickers of the Fund the same.

Endnotes

[A] FRAM is a subsidiary of First Brands. On June 30, 2023, our position in the First Brands 1st Lien Term Loan due 3/30/27 represented 1.40% of the CrossingBridge Low Duration High Yield Fund, 1.75% of the CrossingBridge Responsible Credit Fund and 0.61% of the RiverPark Strategic Income Fund. On the same date, our position in the First Brands 2nd Lien Term Loan due 3/24/28 represented 0.32% of the CrossingBridge Low Duration High Yield Fund and 1.15% of the RiverPark Strategic Income Fund.
[B] Bank of America, as of May 31, 2023
[C] Bank of America, as of June 12, 2023
[D] Bank of America, as of June 16, 2023
[E] Bank of America, as of May 31, 2023
[F] Intex
[G] Bank of America, Fitch, JP Morgan
[H] CreditSights
[I] No portfolios managed by CrossingBridge Advisor, LLC held positions in debt or equity instruments of Heartland Dental during 2Q23.
[J] Bloomberg, CreditSights and company
[K] Bank of America, as of June 23, 2023; JP Morgan, as of June 16, 2023
[L] *CLO Factbook*, Bank of America June 16, 2023
[M] *CLO Factbook*, Bank of America June 16, 2023. 135 bp on June 9, 2023, and 280 bp on September 2, 2022.
[N] JP Morgan, as of June 30, 2023
[O] *Most Liability Management Transactions Only Delay Default, Clip Recoveries*, Fitch Ratings, April 17, 2023

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Disclosures

Must be preceded or accompanied by a prospectus. The prospectus for the CrossingBridge Ultra-Short Duration Fund, CrossingBridge Low Duration High Yield Fund, and CrossingBridge Responsible Credit Fund can be found by clicking here. The prospectus for the RiverPark Strategic Income 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. Per rule 30e-3, the fiscal Q1 holdings and Q3 holdings can be found by clicking on the respective links.

The prospectus for the CrossingBridge Pre-Merger SPAC ETF can be found by clicking here. The Statement of Additional Information (SAI) 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 funds are 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.

CrossingBridge mutual funds' disclosure: 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 fund, 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 fund 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.

CrossingBridge Pre-Merger SPAC ETF disclosure: investing involves risk; principal loss is possible. The fund invests in equity securities and warrants of SPACs. Pre-combination SPACs have no operating history or ongoing business other than seeking combinations, and the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable combination. There is no guarantee that the SPACs in which the fund invests will complete a combination or that any combination that is completed will be profitable. Unless and until a combination is completed, a SPAC generally invests its assets in U.S. Government securities, money market securities, and cash. Public stockholders of

SPACs may not be afforded a meaningful opportunity to vote on a proposed initial combination because certain stockholders, including stockholders affiliated with the management of the SPAC, may have sufficient voting power, and a financial incentive, to approve such a transaction without support from public stockholders. As a result, a SPAC may complete a combination even though a majority of its public stockholders do not support such a combination. Some SPACs may pursue combinations only within certain industries or regions, which may increase the volatility of their prices. The fund may invest in SPACs domiciled or listed outside of the U.S., including, but not limited to, Canada, the Cayman Islands, Bermuda and the Virgin Islands. Investments in SPACs domiciled or listed outside of the U.S. May involve risks not generally associated with investments in the securities of U.S. SPACs, such as risks relating to political, social, and economic developments abroad and differences between U.S. And foreign regulatory requirements and market practices. Further, tax treatment may differ from U.S. SPACs and securities may be subject to foreign withholding taxes. Smaller capitalization SPACs will have a more limited pool of companies with which they can pursue a business combination relative to larger capitalization companies. That may make it more difficult for a small capitalization SPAC to consummate a business combination. Because the fund is non-diversified it may invest a greater percentage of its assets in the securities of a single issuer or a smaller number of issuers than if it were a diversified fund. As a result, a decline in the value of an investment in a single issuer could cause the fund's overall value to decline to a greater degree than if the fund held a more diversified portfolio.

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 filed for bankruptcy protection under chapter 11 are allowed to access dip financing, which usually happens at the start of a filing. Dip financing is used to facilitate the reorganization of a Debtor-in-Possession (the status of a company that has filed for bankruptcy) by allowing 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 receives if the bond is held until the call date, which occurs sometime before it reaches maturity. The SEC Yield is a standard yield calculation developed by the U.S. Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-day period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period after the deduction of the fund's expenses. It is also referred to as the "standardized yield." **Yield to Worst** is the yield on the portfolio if all bonds are held to the worst date; Yield to Worst date is the date of lowest possible yield outcome for each security without a default. An **Amend & Extend** agreement is an agreement between a lender and borrower where the terms

of the credit agreement are amended, and the maturity is extended. **Loan-to-Value (LTV)** is a ratio that measures the amount of a loan outstanding versus the value of an asset.

ETF definitions: the ICE BOFA 0-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than three years. **Gross Spread** is the amount by which a SPAC is trading at a discount or premium to its pro rata share of the collateral trust value. For example, if a SPAC is trading at $9.70 and shareholders' pro rata share of the trust account is $10.00/share, the SPAC has a gross spread of 3% (trading at a 3% discount). **Yield to Liquidation:** similar to a bond's yield to maturity, SPACs have a yield to liquidation/redemption, which can be calculated using the gross spread and time to liquidation. **Maturity:** similar to a bond's maturity date, SPAC also have a maturity, which is the defined time period in which they have to complete a business combination. This is referred to as the **Liquidation or Redemption Date.** Price refers to the price at which the ETF is currently trading. The sec yield is a standard yield calculation developed by the U.S. Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-day period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period after the deduction of the fund's expenses. It is also referred to as the "standardized yield." **Weighted Average Life** refers to the weighted average time until a portfolio of SPACs' Liquidation or Redemption Dates.

All performance data greater than 1 year is annualized.

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 fund for a defined period of time at a fixed interest rate. 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. Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Tax features may vary based on personal circumstances. Consult a tax professional for additional information.

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