December 8, 2020 | Scott Carmack (Portfolio Manager)

HINDSIGHT 2020

2020 RECAP

Historical analogs for 2020 asset class (and fund) performance are virtually non-existent. The speed by which many asset classes and economic activity deteriorated in the second quarter of 2020 is unprecedented. Value-at-risk models, ours included, were woefully unprepared for such a shock. It is during such Black Swan events that asset managers must be nimble, level-headed, and remain steadfast to their process in the face of fear and uncertainty. And while this might sound like a simple investing tenet, in practice it is much more difficult. This was my number one thought as I repositioned the portfolio, quarantined in my dusty attic, during the dark financial days of March. Repositioning the portfolio in such a difficult environment is difficult – there is no perfect formula. An asset manager has to consider all of the following: 1) investors may redeem their investment by choice, or by necessity. 2) positions that you want to sell may have no underlying bid. And 3) panicked markets will often take the positions you have conviction in to levels you never thought possible.

With these problems in mind, I had to make a few choices. First and foremost, I treated the sell-off as a generational buying opportunity in many of the bonds that we already owned. Specifically, the Business Development Company debt, with 3 to 5-year maturities, once yielding 5%, was suddenly trading at 20-50% yields, depending on the issuer. Second, I had to maintain enough cash for potential redemptions so as to not be a forced seller at fire sale prices. And third, many of the positions I no longer had conviction in, due to the Pandemic, were impossible to unload, given that there were no bids. So, I made a choice: I sold all of our TIPS positions and virtually all of our AAA CLO positions to fund potential redemptions and BDC debt purchases. At times, I was selling AAA paper at 7-10% yields so that I could take advantage of the sell-off in my favored asset class. I also chose to spend my time and energy pursuing this rebalancing rather than wasting time finding buyers of the debt I no longer had conviction in, and was likely to be permanently impaired – mostly in the energy sector. Indeed, we ultimately had four issues go to non-accrual and eventually file for bankruptcy. But this was a problem I addressed after the volatile market of March and April, and by buying quality bonds at distressed prices, I was able to more than make-up for these impairments.

In our Q1 Newsletter, "Coronavirus – Market Fear & Opportunities Abound," I wrote:

> "I do not know how bad it gets and how long the disruption lasts. Historically, pandemic fears have typically shaved 10-20% off of equity markets, but there is always tail-risk and human reaction and fear can certainly have a cascading domino effect when it comes to asset prices. That is the bad news. The good news is that there is a global initiative currently underway that will provide fiscal and monetary stimulus to a problem that could be temporary."

My approach to the portfolio has been driven by the statement above, and has remained consistent. After publishing the newsletter, the referenced "bad news" was certainly apropos. The S&P 500 ultimately plunged 33.8% from its February highs, and the Holbrook Income Fund (ticker:HOBIX) experienced a drawdown of 23.36% from its highs. At the time I wrote the newsletter, it was only down 1.47%. Again, this speaks to the tail-risk inherent during a Black Swan event. But more importantly, my belief that monetary and fiscal policy would provide a bridge to a more normal economy never wavered. As such, while volatility soared, and drawdowns reached levels unforeseen and unexpected, our process did not change, only the scorecard. I referenced this process in the Q1 newsletter:

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"We at Holbrook hate drawdowns, but we also recognize they are a natural part of investing and our experience is that at times of heightened volatility the best opportunities present themselves. As such, we will continue to deploy capital into a fear-based market. We have had a number of drawdowns since our inception on July 6, 2016 – most have been between 50 and 100 basis points. The current drawdown is more than that. Below is a chart showing our larger drawdowns and the subsequent 1-year return. In both of our previous larger drawdowns, we built out the yield on the portfolio in the issues where we saw beneficial risk/reward. Both drawdowns were recovered relatively quickly and the subsequent year produced robust returns. This is our process. We use volatility to our advantage and as an opportunity to increase the yield in the portfolio in the names we like. In 2016, we added to our preferred and high yield positions before and after the election. In late 2018, we added exposure to our BDC Baby Bond positions. And today, we are continuing to add exposure to our short-dated BDC Baby Bond positions, which we think are particularly attractive."

The chart below is updated and shows our drawdowns and subsequent 1-year returns. The last recovery is incomplete (less than one year since the drawdown) and shows our return from March 23rd 2020 to November 30th 2020.

HOBIX Drawdowns

Drawdown Date	Drawdown (%)	Subsequent 1 Year Return (%)
10/27/16 - 11/11/16	1.72%	6.24%
9/19/18 - 12/24/18	3.14%	8.58%
1/14/20 - 3/23/20	23.36%	35.85%*

***Return is through 11.30.2020**

Standardized Performance

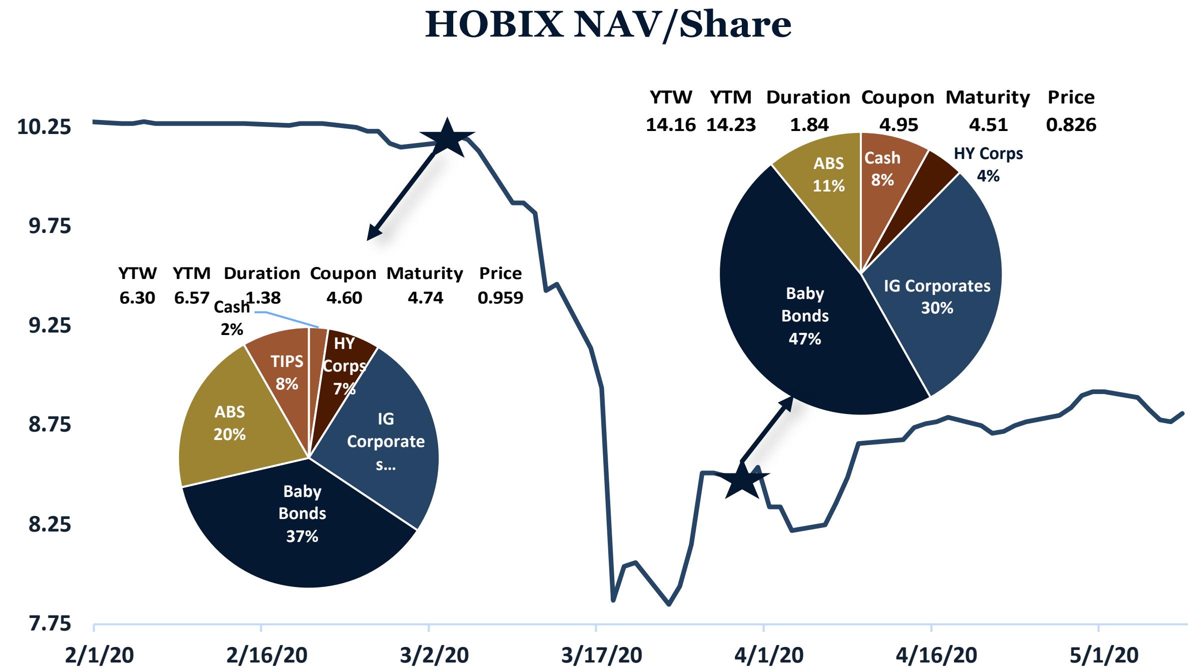
Total Return (I-Shares) as of 11/30/2020	Trailing Returns			Calendar Year Returns		
	1 Year	3 Year	Since Inception	2017	2018	2019
Holbrook Income Fund	5.56%	4.73%	4.60%	3.98%	1.72%	7.68%
BofAML US Corp & Govt, 1-3 Yrs TR	3.50%	2.99%	2.12%	0.86%	1.63%	4.07%

Total Return (I-Shares) as of 9/30/2020	Trailing Returns			Calendar Year Returns		
	1 Year	3 Year	Since Inception	2017	2018	2019
Holbrook Income Fund	2.45%	3.54%	3.89%	3.98%	1.72%	7.68%
BofAML US Corp & Govt, 1-3 Yrs TR	3.74%	2.87%	2.18%	0.86%	1.63%	4.07%

BofAML US Corporate & Government Index, 1-3 Year Index - The index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 3 years. **Past performance is not indicative of future results. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Fund Inception is 7.6.2016 and performance is annualized.** ***The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. The total annual fund operating expenses for Class I are 1.17%. Total annual operating expenses after reimbursement of prior fees waived for Class I are 1.31%. The Fund's adviser has contractually agreed to reduce fees and absorb expenses of the Fund until at least September 1, 2021. Without these waivers the Total Annual Fund Operating Expense are 1.17% for Class I. Please review the Fund's prospectus for more detail on the expense waiver. Results shown reflect the waiver, without which the results could have been lower. A Fund's performance, especially for very short periods of time, should not be the sole***

factor in making your investment decisions. For performance information current to the most recent month end, please call toll-free 1-877-345-8646.

The figure below illustrates how we restructured the portfolio during the volatile March period (portfolio statistics are from the end of February to the end of March). The weighted average yield on the portfolio increased from 6.57% to 14.23%. The weighted average price of the portfolio decreased from 95.9 to 82.6 (percentage of par value). TIPS positions were sold, and AAA and AA CLO's were pared for liquidity. Our Baby Bond exposure increased from 37% to 47% of the portfolio.



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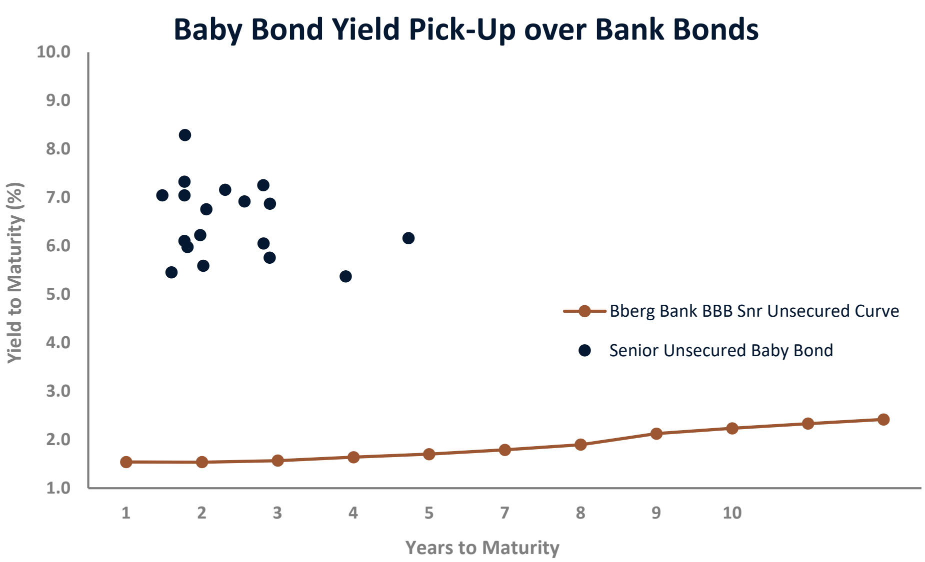
OPPORTUNITIES IN 2021

We continue to position the portfolio for an economic recovery. The recession in the first half of 2020 was unprecedented in terms of its depth and the speed by which it took hold. Likewise, the recovery in the third quarter was equally as impressive and robust. Fiscal and Monetary policy provided a strong bridge, and I believe they will continue to do so in 2021, until an organic recovery can be self-sustained. I believe the markets will be driven by the following factors:

1) Unemployment will likely continue to fall as local economies are fully open in the second quarter of 2021
2) Fiscal recovery stimulus, as well as a potential infrastructure bill should fuel the re-emergence of inflation, at a time when supply chains are compromised and productive capacity has been impaired
3) The Federal Reserve is not expected to raise rates keeping short-term rates anchored at zero
4) Quantitative Easing is now more of a function of absorbing treasury supply and will likely be conducted to assure the stable functioning of treasury markets
5) We expect the dollar will continue to experience weakness
6) We anticipate the yield curve will continue to steepen as inflationary pressures mount
7) We expect value to outperform growth, small cap to outperform large cap, and commodities to finally outperform
8) Savings rates should *start* to return to normal levels and hopefully provide more fuel for risk-asset rallies

Although many of our holdings have recovered strongly from their March lows, we still see relative value in two segments of the market: Senior Unsecured Baby Bonds issued by Business Development Companies (BDC's), and Corporate Steepeners.
The BDC Baby Bonds portion of our portfolio currently has a weighted-average maturity of 2.7 years, a weighted-average price of 100, and a weighted-average yield-to-worst of 6.7%. Most of these issues are either rated BBB by major rating agencies, or they are not-rated. But they all have the same covenants, and are mandated to maintain asset-coverage ratios above 150%. The point is that these Business Development Companies (that lend to the Middle Market) would have to experience losses in their portfolio between thirty and seventy percent before bond-holders are forced to take a haircut. As far as we know, no BDC defaulted on its obligations during the Great Financial Crisis of 2008. And default rates, although they were elevated, never reached 15%. As such, we are comfortable taking volatility risk. Third quarter earnings served to reinforce my conviction as many of our issuers deleveraged, grew Net Asset Value, and improved liquidity. It is my expectation that many of our bonds will be called over the next 12 months. BDC Baby Bonds are currently about half of our portfolio. The adjacent scatter chart shows the yields that we are getting in the Baby Bond portion of our portfolio and how they compare to the BBB Senior Unsecured Bank curve. There is a significant yield pick-up.

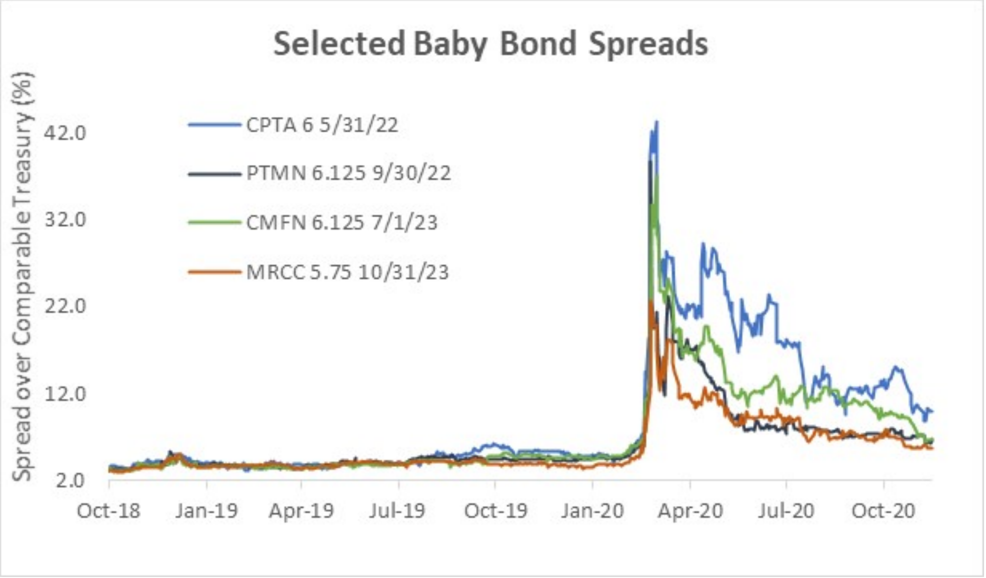


Source: Bloomberg 12.08.2020; Past Performance is not indicative of future

results; Investors cannot invest directly in an index. NOTE: Data points are an assortment of Baby Bonds, both senior unsecured and preferred; Chart does not reflect yield-to-call, which could be higher or lower than the yield-to-maturity reflected in the chart

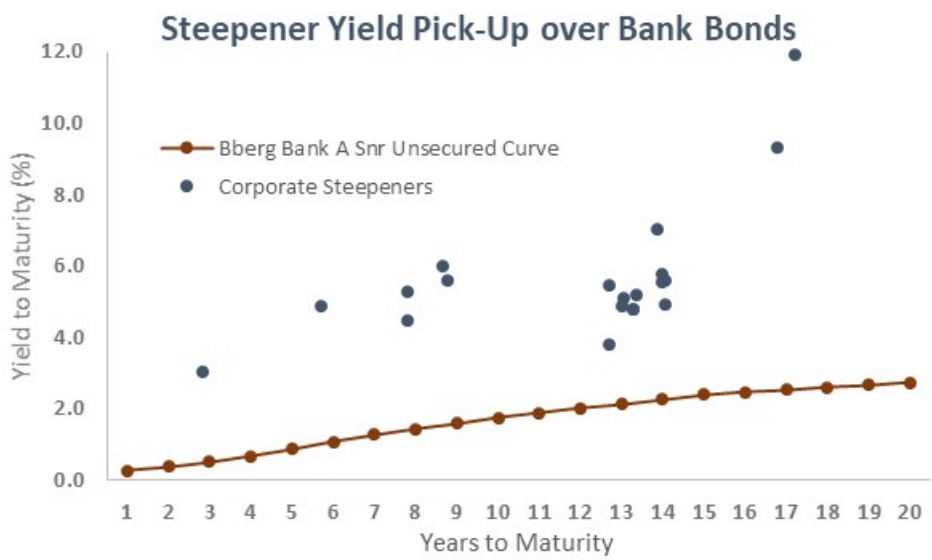
BDC Baby Bonds and corporate steepeners account for 70% of the portfolio, and in my opinion offer an acceptable risk/reward proposition. As such, I continue to maintain our current exposure levels.

The adjacent chart shows the spread over comparable treasuries during the last few years for four issues that I that are significant positions in the portfolio. Prior to 2020, spreads were consistently in the 300 basis points (bps) to 400 bps range and volatility was relatively subdued. The chart demonstrates why I was pounding the table in April and March and viewed the sell-off as a generational buying opportunity. And while these securities have largely recovered, I believe spreads between 600 and 1000 bps can still offer significant value.



Source: Bloomberg 12.8.2020; Past Performance is not indicative of future results; Chart does not reflect yield-to-call, which could be higher or lower than the yield-to-maturity reflected in the chart; Spread is measured over the following treasury securities: T 1.875 5/31/22 for CPTA, T 2 10/31/22 for PTMN, T 2.75 7/31/23 for CMFN, and T 2.875 10/31/23

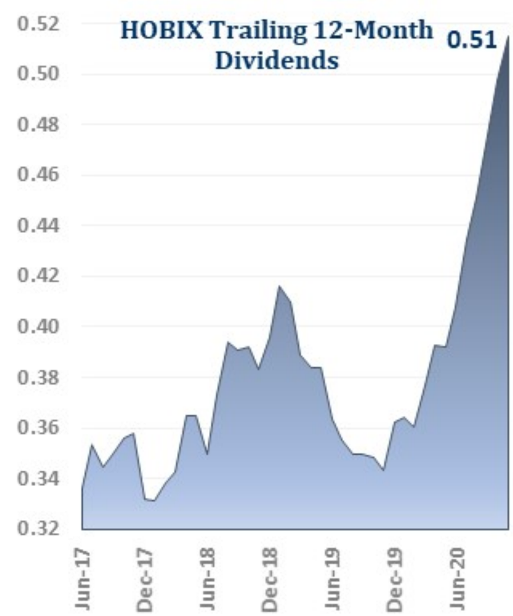
We continue to maintain a 18% allocation to corporate steepener bonds. These are structured notes issued by companies like Morgan Stanley, Natixis, Jefferies, Goldman Sachs, and Citigroup. Each individual bond is different, but in general, their coupons adjust based on the steepness of the yield curve. This is a mean reversion play on the yield curve and it is driven by two main tenets: 1) The Federal Reserve will opt to keep short-term rates low, especially in the face of an exogenous event such as the Coronavirus. And 2) the long-end of the yield curve is underestimating potential future inflation, and potential supply.



The adjacent chart illustrates the pick up in yield of our corporate steepeners over vanilla fixed-rate bank bonds at various maturities – as of December 8th, 2020. Currently, the weighted average yield-to-maturity of the steepeners is 6.96%, the weighted average price is 93.1 (percentage of par) and the weighted average years-to-maturity is 12.1. I believe coupons will continue to be reset higher as the yield curve steepens, and that many of the callable issues will be called over the next six months. I am currently accumulating non-callable issues as they have the opportunity to trade at significant premiums to par value.

Source: Bloomberg 12.08.2020; Past Performance is not indicative of future results; Investors cannot invest directly in an index. NOTE: Data points are an assortment of Corporate Steepeners; Chart does not reflect yield-to-call, which could be higher or lower than the yield-to-maturity reflected in the chart

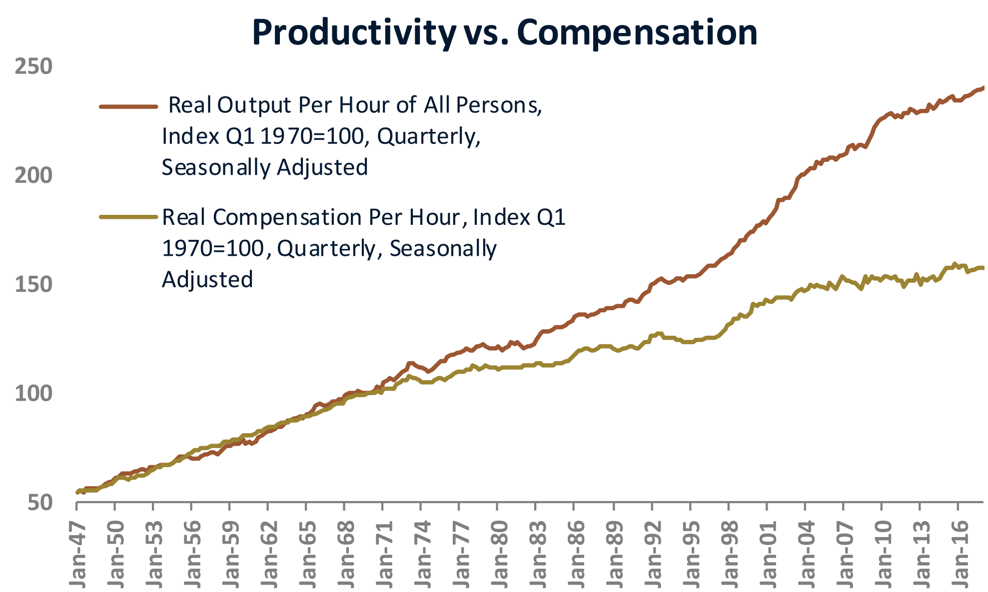
ECONOMISTS HAVE THE DEMOGRAPHIC ARGUMENT ALL WRONG



The Holbrook Income Fund was launched in 2016 with two objectives: seeking to generate income and to preserve capital in a rising interest rate environment. In reference to the first objective, the chart to the right is our trailing 12-month dividend payout for the Holbrook Income Fund (ticker: HOBIX). From the end of 2019, we have increased our trailing 12-month dividend by 42%. Moreover, we have done this in an environment where treasury yields have fallen and money market yields are close to zero. Our opportunistic nature during the March/April sell-off enabled us to build the yield substantially, and this has historically been our process.

The reason we included the second objective is because I feel that we are on the cusp of a secular change in interest rates. Many economists view aging demographics as a deflationary force for developed economies. They cite Japan as their case study. Indeed, Japan has an aging population and has suffered from deflation for much of the past thirty years, but correlation is not causal. Few empirical studies have actually been conducted on the matter, and it is far more likely that persistent deflation (or disinflation in the U.S.) is the result of stagnant wages resulting from a labor supply glut – in most developed markets.

In the U.S., aging baby-boomers expanded the labor-force population after 1970. Rising female participation rates exacerbated labor oversupply. And finally, globalization gave U.S. companies access to a massive pool of cheap labor overseas. However, all of these demographic forces are reversing. The female participation rate topped out in 2000, and the overall working-age population in the



Source: Federal Reserve Bank of St. Louis, 6.20.2018

United States has been falling since 2007. Outsourcing is less profitable as the cost of labor in emerging economies catches up to that of the U.S. As the labor glut transitions to a shortage, wages will likely breakout of their multi-generational doldrums, and disinflation (and falling yields) will be a relic of the past. The more recent risk of global trade wars will serve to accelerate an inflationary process that is already taking place. Not only do tariffs directly raise consumer prices, but they inflate production prices at every level of the supply chain.

In terms of aging demographics -- On the surface it might seem that older cohorts consume less. However, from a money flow perspective, this is not always the case, especially in what I forecast to be the political environment moving forward. Older cohorts have a higher marginal propensity to consume. That is, they spend a higher percentage of their income. And while a growing percentage of their income will be sourced from transfer payments (Social Security, Medicare etc.) all of that is spent and recycled into the economy. Whether it is financed by savers via taxes (the working-age cohort) or with more sovereign debt, it doesn't matter, both are inflationary.

The chart above incapsulates a multitude of economic trends over the last 50 years. The chart plots productivity growth (output per hour worked) and compensation growth. Until 1970, both time-series grew in lock-step as workers directly benefitted from increased productivity. Since then, the gap between the two has expanded. Why have these diverged? Simple, the aforementioned labor supply glut. The implications of this divergence have been colossal. Corporate profits have ballooned as margins expanded. Income inequality followed. Companies invested more to access cheap labor than they did to grow capex. Investment and productivity naturally slowed. Many of the current economic problems can be attributed to the demographic changes and labor oversupply that surfaced in the 1970's and accelerated due to globalization.

As this glut shifts to a shortage, everything we have come to know over the last fifty years could reverse. Companies may experience margin deterioration. Income inequality may begin to reverse. Firms that have spent the last few decades investing in labor may start shifting their inputs and capex could spike. Investment and productivity could ultimately be the result. Wage growth and inflation will likely re-emerge. And interest rates? I believe they may go higher.

CONCLUSION

2020 has been a difficult year to navigate, and not just in the financial markets. Many workers are displaced. Multitudes of children are attending school virtually. But most unfortunately, the epidemic has taken the lives of many Americans. We at Holbrook hope and pray for better times ahead, and we believe 2021 will be the start of a return to normalcy. We want to thank our healthcare workers, and all of those who are on the front-lines of this pandemic – they are truly heroes. And we want to offer our condolences to those who have lost a loved one, or are displaced and facing financial hardship. We as a nation will forge forward, learn, and heal – there are brighter days ahead.

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Risks:

Investments in mutual funds involve risk including possible loss of principal. There is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses. The Fund invests in closed end investment companies or funds. The shares of many closed end funds, after their initial public offering, frequently trade at a price per share that is less than the net asset value per share, the difference representing the "market discount" of such shares.

The Fund may be adversely affected by new (or revised) laws or regulations that may be imposed by government regulators or self-regulatory organizations that supervise the financial markets. CLO debt securities are limited recourse obligations of their issuers and may be subject to redemption. Holders of the CLO debt being redeemed will be repaid earlier than the stated maturity of the debt. The timing of redemptions may adversely affect the returns on CLO debt. The CLO manager may not find suitable assets in which to invest during the Reinvestment Period or to replace assets that the manager has determined are no longer suitable for investment.

The value of securities issued by the U.S. Government generally fluctuates in response to inflationary concerns and may differ in their interest rates, maturities, times of issuance and other characteristics.

The risk that the Fund could lose money if the issuer or guarantor of a fixed income security is unwilling or unable to make timely payments to meet its contractual obligations. The risk that foreign currencies will decline in value relative to the U.S. dollar and adversely affect the value of the Fund's investments in foreign (non-U.S.) currencies. The derivative instruments in which the Fund may invest for hedging purposes may be more volatile than other instruments.

The Fund invests in fixed income securities or derivatives, the value of your investment in the Fund will fluctuate with changes in interest rates. These risks could affect the value of a particular investment by the Fund. Investment in or exposure to high yield (lower rated) debt instruments (also known as "junk bonds") may involve greater levels of interest rate, credit, liquidity and valuation risk than for higher rated instruments. When the Fund invests in other investment companies, including ETFs, it will bear additional expenses.

The Fund has a limited history of operation. In addition, the Adviser has not previously managed a mutual fund. The risk that investment strategies employed by the Fund's adviser in selecting investments for the Fund may not result in an increase in the value of your investment. The Adviser's use of computer trading modeling systems may perform differently than expected as a result of the factors used in the models.

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Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other important information about the Fund. For a current Prospectus, call 1-877-345-8646 or go to www.holbrookholdings.com

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