HOLBROOK HOLDINGS

December 31, 2021 | Scott Carmack & Ethan Lai (Portfolio Managers)

GONE FISHING

As we assess the fixed income landscape going into 2022, it looks quite different than that of the last two years. The title of this newsletter conjures up a sleepy shopkeeper sign signifying a break from one's normal routine – a recreational respite from the stagnant summer swelter. We at Holbrook are certainly *not* taking a hiatus from investing, but we *are* actively scaling down both credit and interest rate risk in the portfolio in preparation for 2022. As it pertains to risk, we have certainly "Gone Fishing." Are we bearish on the economy? No – it is our belief the private sector *should* continue a dynamic rebound from the Covid-19 recession. However, our concern is asset valuations, which was not the case over the past couple of years. Both high yield and investment grade spreads continue to probe multi-decade lows, and treasury yields are still at their pre-covid lows. So, in a world where both risk assets and treasury valuations are stretched, where does one invest? In keeping with the "Gone Fishing" analogy, we are opting to stick with two investment themes: **F**loating-rate **I**nvestment Grade bonds, and **S**hort-maturity **H**igh-coupon bonds – please pardon the acronym. The former minimizes interest rate risk in the portfolio and allows the yield to grow with what appears to be a pivot in Fed policy. The latter provides current yield and will likely better absorb rate increases on the short-end of the yield curve. 2022 may be a strong year for the economy, but that is already priced into the market. It's what we *don't* see coming around-the-corner that could potentially shock valuations lower. As such, we are comfortable with our risk hiatus and have gone **FISH**ing for a bit until risk/reward profiles improve.

2021 – THE YEAR IN REVIEW

Asset performance was robust in 2021 as corporate spreads continued to tighten and except for a Summer Delta-induced hiccup, reflation trades performed well. Overall, it was a challenging year for fixed income investors as longer-duration treasury yields climbed in the first half of the year, and shorter-term yields picked up the baton in the back-half of the year as the Fed pivoted from its "transitory" stance on inflation and became markedly more hawkish. In general, the Fund performed admirably in our opinion. The institutional share class (ticker: HOBIX) finished the year up 7.02% versus our benchmark (ICE BofA U.S. Corporate & Government, 1-3 Year Index) which was down (-0.41%). Much of the Fund's outperformance occurred in the first quarter and was driven by corporate spread compression as well a steepening of the yield curve which drove the prices of our corporate steepener positions markedly higher. We opened the 2021 with approximately 20% of the fund in these positions and continually pared back exposure throughout the year accelerating our exits in November and December when it became apparent that the short-end of the yield curve was no longer anchored and that the Federal Reserve was pivoting from its transitory thesis on inflation. Nevertheless, these positions provided negative attribution to overall return in the final quarter – contributing to approximately 60 basis points in loss from Fund performance. As two-year yield rose, many funds in the shorter-term space faced headwinds. Our benchmark closed the fourth quarter down (-0.53%). Despite the negative attribution from out steepener positions, the Fund finished the fourth quarter up 0.08% as the bulk of our portfolio remained immune from rate increases, either because of their floating rate structure, or their absorptive high coupons. We finished the year paying out .50 in income distributions and .017 in long-term capital gains. Standardized performance as of year end is shown below.

Total Return (I-Shares) as of 12/31/2021

	Trailing Returns						
	7 Day	1 Month	Year-to-Date	1 Year	3 Year	5 Year	Since Inception
Holbrook Income Fund	0.08%	-0.12%	7.02%	7.02%	7.16%	5.41%	5.35%
BofAML US Corp & Govt, 1-3 Yrs TR	0.03%	-0.20%	-0.41%	-0.41%	2.31%	1.88%	1.64%

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 1.06%. Total annual operating expenses after reimbursement of prior fees waived for Class I are 1.06%. The Fund's adviser has contractually agreed to reduce fees and absorb expenses of the Fund until at least September 1, 2022. Without these waivers the Total Annual Fund Operating Expense are 1.06% 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.***

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INVESTMENT BACKDROP MUCH MORE CHALLENGING IN 2022

We enter 2022 with valuations across many asset classes stretched historically. Option-adjusted high yield spreads are an anemic 275 basis points over treasuries. The chart to the right shows high yield spreads are a full standard deviation below their 27-year average (521 bps). They can remain at subdued levels for long-period of times, however, generally at these levels we believe high yield does not represent an attractive risk-reward proposition. Again, we believe high yield spreads will remain tight in 2022. There are significant tailwinds -- increased money supply, improving cash flows, low projected default rates to name a few. However, it is what we and the market don't see that can lead to devastating sell-offs -- in this asset class in particular. As such, we have opted for high yield exposure in industries and structures that offer considerably more yield than the overall sector. We believe corporate high-yield in general should be eyed warily.

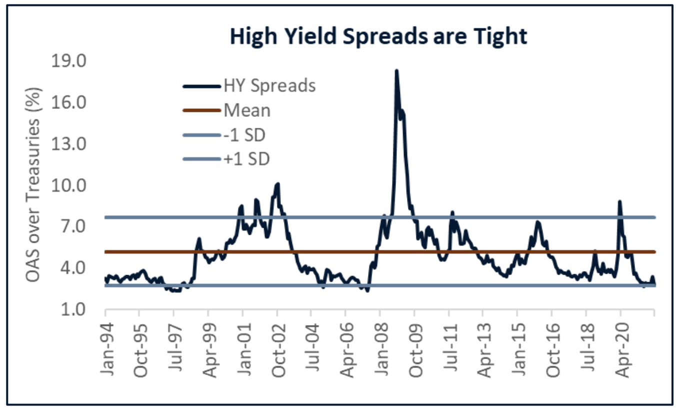


Figure 1 - Source: Bloomberg 12.29.2021; Past Performance is not indicative of future results; Investors cannot invest in an index; Bloomberg US Corporate High Yield Average OAS Index

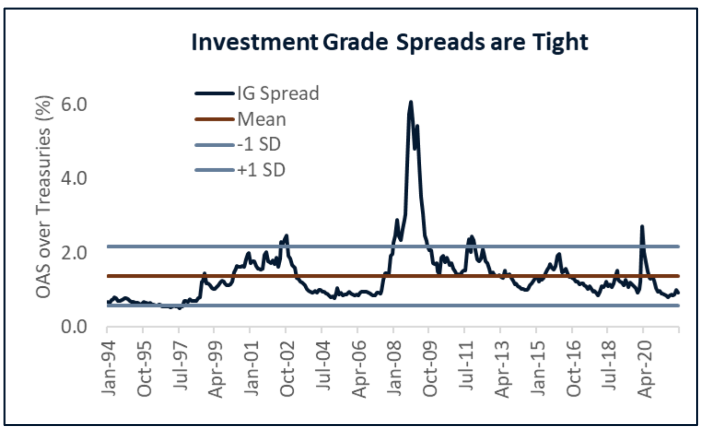


Figure 3 -- Source: Bloomberg 12.29.2021; Past Performance is not indicative of future results; Investors cannot invest in an index; Bloomberg US Agg Corporate Avg OAS Index

Investment grade spreads, while not quite as stretched as their high-yield counterparts, are also historically tight. Investment grade credit over the past 27 years has averaged 137 basis point pick-up over treasuries. Currently, it provides only 93 basis points. Again, we believe 2022 will be a benign year for corporate credit, and our base-case scenario is that spreads remain tight. However, in our opinion, the risk-reward proposition for this asset class has become less attractive.

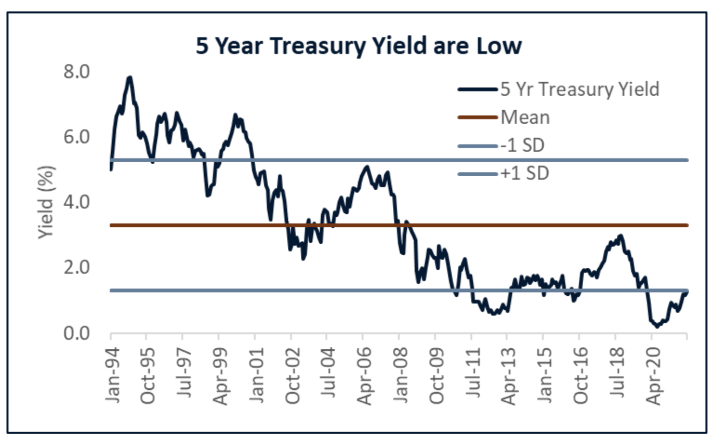
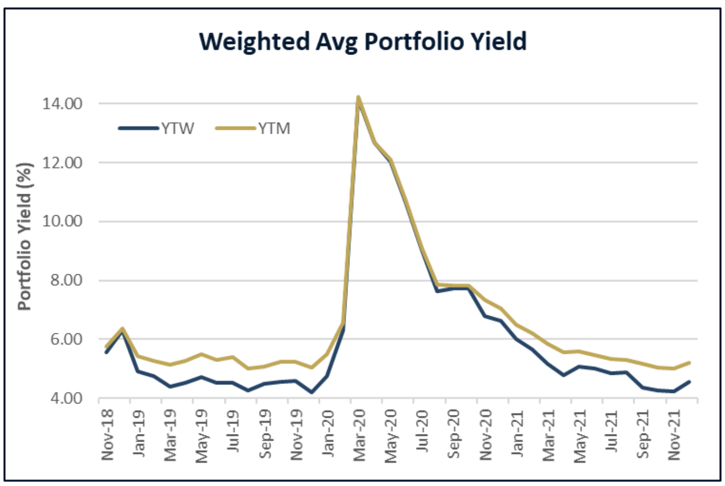


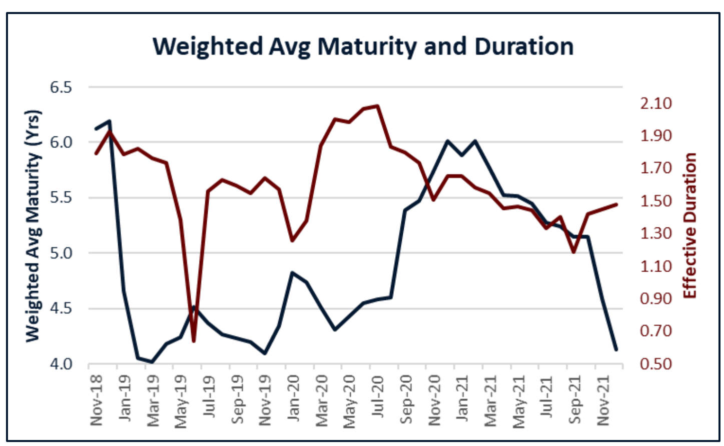
Figure 2 – Source: Bloomberg 12.29.2021; Past Performance is not indicative of future results

The largest risk for the fixed income market in 2022, in our opinion, is rising treasury yields. The 5-year treasury yield is currently at 1.28% - over one standard deviation from its 27-year average (3.30%). With the Fed pivoting to a more hawkish stance and trash-binning their "transitory" thesis on inflation, shorter-term rates are no longer anchored. The rate-hiking cycle *could* further be exacerbated by the midterm elections – during which we believe inflation will be the number one issue. And while we believe current inflation is more a function of reactive fiscal policy to Covid-19 and the accompanying economic shut-downs, there will certainly be a drive for incumbents to blame the Federal Reserve. This *could* exert additional pressure on the Fed to raise sooner and faster than they might have otherwise. Meanwhile, it appears that Quantitative Easing will be tapered off by the end of the first quarter. Did you know that since the beginning of March 2020, U.S. Treasury debt held by the public has increased approximately $6 Trillion? Over that same time period Fed holdings of U.S. Treasuries has increased by $2.9 Trillion. The Federal Reserve has purchased almost 50% of new Treasury issuance. With the largest marginal buyer of U.S. Treasuries exiting the market by the end of Q1, and U.S. deficit projections for 2022 topping $1.6 Trillion, we believe from a supply/demand perspective interest rates will move higher. From an investment perspective, current treasury yields offer deeply negative real returns, whether using market-based breakeven inflation rates or the current CPI data AND term premiums remain negative. If the economy remains buoyant in 2022, which we expect, there could be considerable pressure on the Treasury complex.

PORTFOLIO STRUCTURE ENTERING THE YEAR

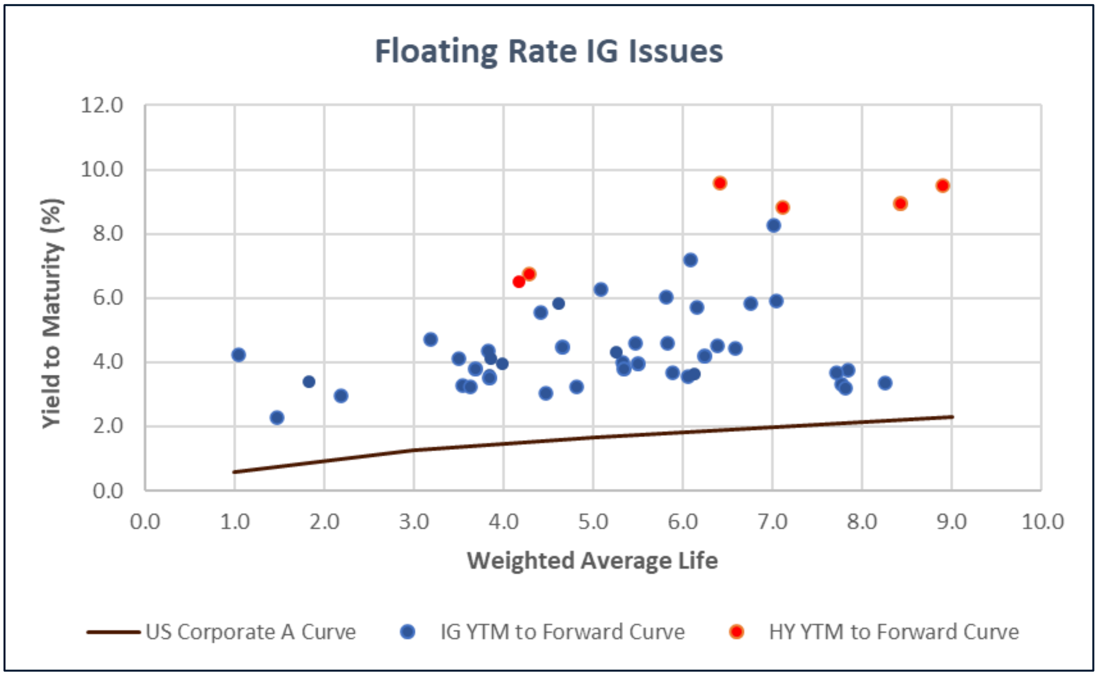
Again, our base case scenario is that 2022 will be a benign year for corporate credit. We believe corporate credit spreads will remain tight, and the economy *should* continue to recover as the Pandemic wanes in its intensity. It is our view that Omicron is the last stage of the crisis – less virulency and higher contagion should blanket the globe in herd-immunity and once politicians realize this, there will be a full and irreversible re-opening of the global economy. Corporate default rates *should* remain muted and the ratio of credit upgrades to downgrades *should* remain elevated. However, as previously mentioned, we believe corporate credit is not providing much of a margin of safety with existing spreads in the event that our base case is wrong. Baseline treasury rates are also exceptionally low given the current inflationary environment and the likelihood that the Federal Reserve will initiate a rate-hiking cycle in 2022. The Fed's hawkish pivot means that short-term yields are no longer anchored, and while it is *possible* that the yield curve steepens in 2022, the probability of such an event has diminished in our opinion. As such, we have significantly pared back our corporate steepener exposure. It currently comprises less than four percent of the portfolio, down from 11 percent just two months ago. I suspect we will be completely out of the remainder of those positions by the end of the



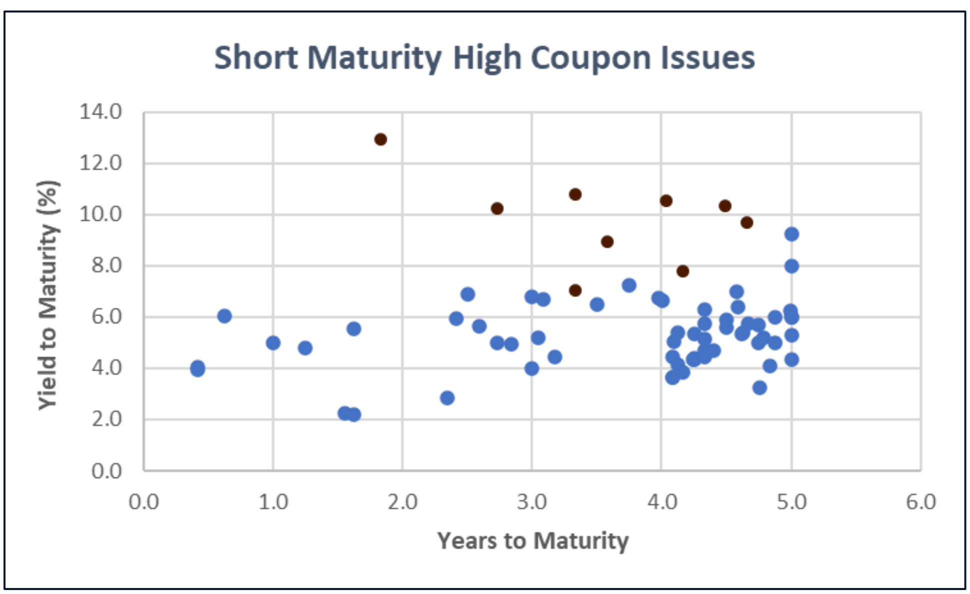


first quarter--potentially sooner. Rather than "fighting the Fed" we are embracing the likelihood of a rate hiking cycle – one that may persist in a more vigorous amplitude and duration than the market expects. Given the prospect of higher rates, and potentially vulnerable credit spreads we have chosen to minimize both effective and spread duration in the portfolio. As such, the weighted average maturity of the portfolio is approximately 4 years – the lowest since inception of the fund. The yield on the portfolio has also experienced an uptick into year-end as we are finding attractive CMBS tranches that are investment grade, well-covered from a Loan-to-Value perspective, and short in their maturity schedules.

The portfolio is essentially bifurcated between high quality floating-rate instruments and short-dated high coupon bonds. The scatterplot to the right shows our floating-rate issues and their yield-to-maturities based on the forward curve versus their weighted-average-lives (high yield issues are delineated in red). Overall, as a group, this is the highest-rated portion of the portfolio and the longest in terms of its weighted average life. Because these issues float, there is minimal interest-rate risk, and we attempt to minimize credit-risk by opting primarily for the A-AAA CLO tranches. As you can see, the pick-up in yield over the Bloomberg US Corporate A-Rated Curve is attractive.



Meanwhile, the scatterplot to the left plots our high coupon shorter maturity holdings – yield-to-maturity versus years-to-maturity. These holdings provide current yield to the portfolio. They are lower in terms of credit quality (high-yield delineated in red) and shorter in terms of overall maturity. Although we are not bullish on high yield overall as an asset class, we are finding



attractive valuations in the oil & gas, coal, and coal remediation sectors where free cash flow metrics are improving but spreads remain elevated because ESG investing has removed entire swaths of potential investors.

THE BIG SECULAR PICTURE

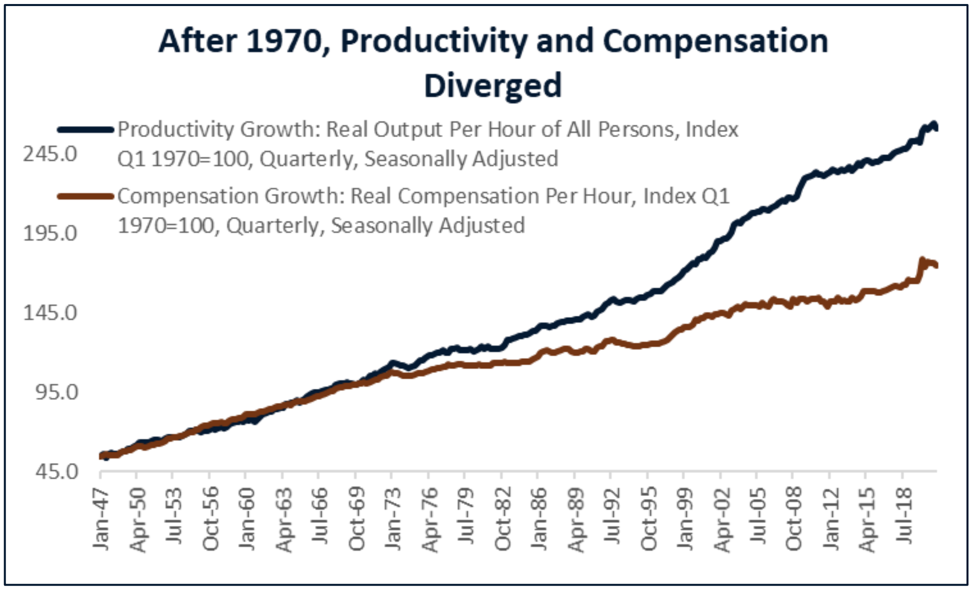


Figure 4 - Source: St. Louis Fed 12.29.2021

I include this section in every newsletter because it is the foundation of my secular argument for rising rates and a potential pivot in the longer-term economic cycle. Furthermore, nothing in my longer-term thesis has changed since the inception of the Fund in 2016. The chart to the right is by far my most favorite economic chart – it encapsulates many apropos themes that are manifesting themselves in the political realm today – income inequality, unionization, female participation, globalization, aging demographics and more. On the surface it illustrates one simple point: After 1970, something changed. Productivity growth in the United States (real output per hour worked) continued unabated. However, compensation growth for workers dramatically slowed. The question is why? And through the exploration of this question, a myriad of social, economic, and political themes emerges – hence my obsession with this chart. The most obvious implication of the chart is income and wealth inequality. Somebody is reaping the benefits of productivity growth. If not workers, who? Corporations. Owners of capital. It is my belief that the bifurcation of corporate profitability and worker compensation can mostly be explained by a labor supply glut that emerged in the early 1970's. In the U.S., baby-boomers expanded the labor-force population after 1970. Rising female participation rates exacerbated labor oversupply. And finally, when marginal supply of these two cohorts decelerated, globalization gave U.S. companies access to a massive pool of cheap labor overseas. Unionization also fell dramatically as bargaining power against corporations waned. By the time stagnant wages had become fully entrenched in the economy in the mid-80's, disinflation took root. After all, it is personal income growth that ultimately drives sustainable inflation – and like the price of everything, wages are determined at the margin.

Fast forward to 2021. It is my belief that all of these demographic forces are reversing, and the implications for the economy, interest rates, inflation, social upheaval, and politics will be enormous. The female participation rate topped out in 2000, and the overall working-age population in the 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. Corporate margins will compress and Income and wealth inequality will lessen. Union strength will re-emerge as their bargaining power increases.

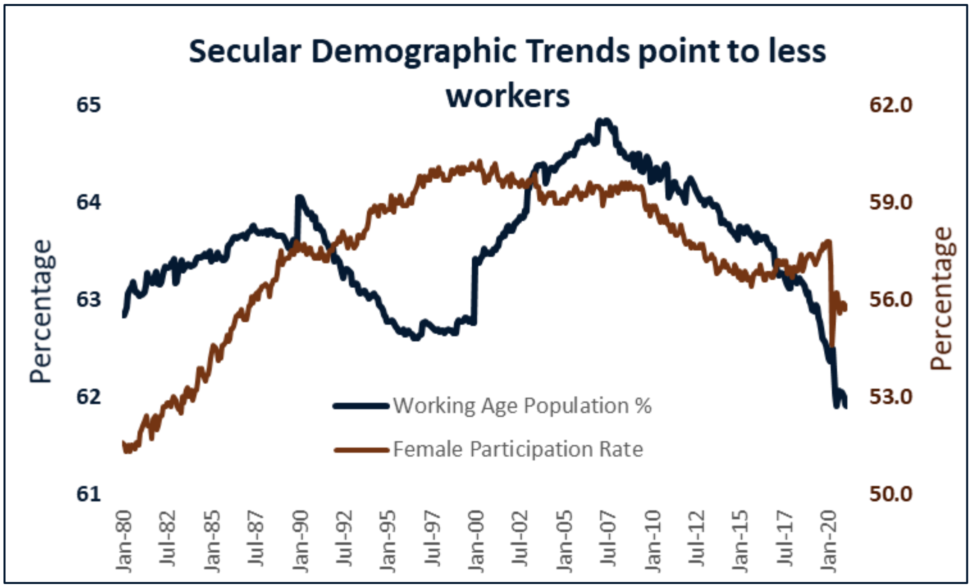


Figure 5 - Source: St. Louis Fed 12.29.2021

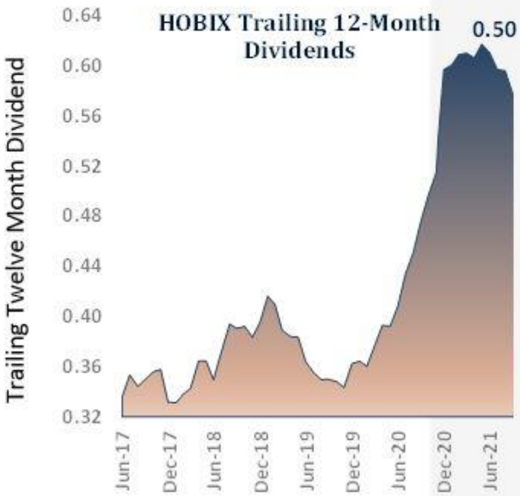
In terms of aging demographics -- On the surface it might seem that older cohorts consume less. However, from a money flow perspective, this is not always the case, especially in what I forecast to be the political environment moving forward. Older cohorts have a higher marginal propensity to consume. 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. And as the working age cohort (as a percentage of the population) falls, we will be faced with an economy that is producing fewer goods, and more money chasing those goods. This is the most basic definition of inflation.

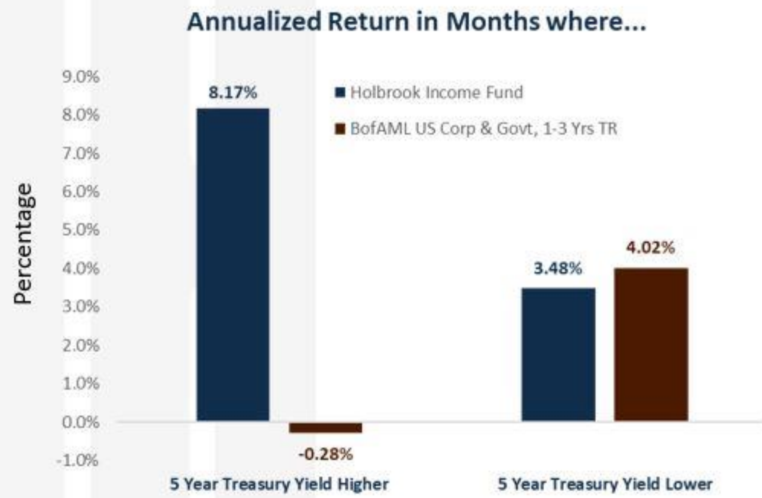
THE HOLBROOK INCOME FUND OBJECTIVES

My secular view on demographics and labor trends should shed some light on why I launched the Holbrook Income Fund in 2016 with two objectives: seeking to generate income and to preserve capital in a rising interest rate environment. Its second objective is unique and intimates that I believe fixed-income managers are going to have a difficult time during the next secular bear market in treasuries. Investor assets have been funneled into huge trough of products that are dependent on low and falling rates for outperformance – and for good reason. After all, we have experienced a forty-year bull market in bonds. I firmly believe there will always be a need for income generating assets, and I believe it is my mandate to navigate the markets when the fixed income tide recedes, and yields move higher. I will continue to measure the Holbrook Income Fund's success based on our two prospectus objectives. To those ends, the slide on the subsequent page is something I will continue to track and revisit. The first chart illustrates our trailing twelve-month dividend. The second chart shows the annualized return of the Fund and its benchmark in months when the 5-year treasury yield moves higher, and in months when the 5-year treasury yield moves lower. Given the secondary objective of the fund, I would expect outperformance in rising rate environments and underperformance in falling rate environments —and this is what we have seen since the inception of the fund.

Seeks to provide current income…

…with a secondary objective of capital preservation in a rising interest rate environment.





Past Performance is not indicative of future results; Investors cannot invest directly in an index. Data is taken from monthly returns and sorted by months where the five-year treasury yield increased and decreased. Monthly performance is then averaged and annualized. Performance data is reflective of all full month returns since the inception of the fund 7.6.2016 through 12.31.2021.

There is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses. Liquidity does not ensure profit or prevent losses.

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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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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