RiverPark Strategic Income Fund
Q&A with David Sherman, CEO of Cohanzick Management, LLC

"It's Time to Start Playing Offense" - Summer of 2022

1. **Your focus has always been on return <u>of</u> principal versus return <u>on</u> principal. Recently you shifted your focus to playing offense. What has changed?**

   David: The RiverPark Strategic Income Fund is a corporate credit fund with an emphasis on high yield securities. In recent months, credit markets have undergone dramatic changes. First, the long-anticipated Fed tightening has now occurred and is reflected in higher yields on government securities. Second, credit spreads have widened because of increased macro uncertainties. Now, we are seeing opportunities to invest in what we believe are "money good"[1] securities with maturities under six years, spreads 500-700 bps over equivalent US Treasuries, and 7.5 to 10% yields to maturity. This is a far cry from the landscape of only a year ago, which led to our previously defensive positioning. In today's environment, we believe there are many attractive risk-adjusted investment opportunities and that it is now time to begin thinking about playing offense.

2. **What are you doing to take advantage of these new opportunities?**

   David: We are proud of our performance in recent years in both the RiverPark Short Term High Yield Fund and the RiverPark Strategic Income Fund as well as in our other similarly managed strategies. We were fortunate to recognize that market conditions were stretched and that investors were often not being paid enough for risk. As a result, we avoided some of the pain others experienced as the fixed income market repriced to its current levels.

   We typically invest in two broad portfolio baskets. The first we think of as our core portfolio holdings of mostly "money good" junk bonds with high yields and moderate durations. The second is invested in a more conservative basket of low duration securities that provide some yield while also providing dry powder for more opportunistic investments. This second basket represented over 50% of the portfolio during the recent "defensive" period, and even our core holdings were biased to shorter maturities of under two years.

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

As we shift our focus to offense, we have begun using some of that dry powder to invest in the opportunities we described above. Although we do not yet know if we have reached a market bottom, and we expect the markets to remain volatile in the near term, we believe investors should begin pivoting to participate selectively in high yield debt. Regardless of overall market positioning, the Riverpark Strategic Income Fund is investing primarily in debt securities that we believe, based on our fundamental analysis, are "money good."

3. How is your approach to investing different than other funds?

David: We are active, bottom-up managers focused on the business fundamentals that drive a company's profits and its ability to support interest and principal payments. The performance of passive fixed-income funds is mostly based on general moves in interest rates and overall credit conditions. Currently, the ICE BofA US High Yield Index is trading at approximately 422 bps over US Treasuries[2], whereas we are seeing many opportunities to invest in "money good," moderate duration securities at 500-700 bps over the curve. Larger actively managed funds typically focus more on macro-economic projections and perceived attractiveness of credit spreads across the risk spectrum, and they tend to focus on sector weightings with respect to relevant benchmarks more than individual credits. We are the polar opposite in terms of our approach to investing. We rarely invest in the most popular names and instead focus on credits where we believe we can create an advantage through our research. We believe credit ratings are more accurate when securities are first issued and over time become stale, often not reflecting deteriorating credit situations or positive developments that would ordinarily substantiate a ratings change. Our focus is always on determining whether we believe a credit is money-good and whether we are getting paid appropriately for whatever risks we are underwriting in our analysis.

4. What can go wrong?

David: Obviously, there is always the possibility of a credit mistake, and it is impossible to predict the next war, pandemic or other exogenous shock. Similarly, it is difficult to predict how far the Fed will need to move rates to combat inflation. However, the substantial rate increases built into today's yield curve and the tepid economic outlook have already priced some of this risk into today's prices. For those investors willing to spend the time researching beyond the headlines, there are ample opportunities in today's markets. We will nevertheless maintain a diversified portfolio so that surprises with respect to any single position will not overly impact the Fund.

[2] As of May 31, 2022. The ICE BofA US High Yield Index tracks the performance of US dollar-denominated, below-investment-grade-rated corporate debt publicly issued in the US domestic market.

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