RiverPark Short Term High Yield Fund
(RPHIX/RPHYX)

3Q 2024 Commentary

Back to School

Along with esteemed industry colleagues, Rosenwald and Brochin,[A] I teach "Global Value Investing" to the MBA students at NYU Stern School of Business in the fall semester. Each one of us sees value investing through different lenses: credit opportunities, Japanese activism, and global equities. But the foundations of value investing remain the same throughout. A special shoutout to Spencer Rolfe, a member of our investment team who serves as a TA and does most of the heavy lifting.

To give the students practical experience, the class manages a small portion of the university endowment. Their mid-term exam is a group project in which they make recommendations to buy, sell or hold existing positions; implementation is determined by student voting. For the final exam, each student must prepare a "buy" recommendation, incorporating value investing principles, and pitch their idea for inclusion in the endowment's portfolio. The top three submissions are presented to an oversight committee as the final arbiter.

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The objective of the class is to provide the students with a disciplined and process-driven value investing approach. As a guideline, we teach students **that value investing begins with a rubric based on the answers to four essential questions:**

- **Is this a good business?**
- **Is there a margin of safety?**
- **Is there an alignment of interests between company management and investors?**
- **Is there a good track record of capital allocation?**

A topic discussed in the class is whether value investing is dead given the dramatic growth of passive index investing. Clearly, the students' outperformance over nearly twelve years gives us hope.[1]

My perspective is that credit opportunities reflect one forum to practice value investing principles. Repeating Warren Buffet, "Price is what you pay; value is what you get." Value earns out when assets and/or cash flow are realized (but, in equities, this can take a long time to be reflected by the market). In fixed income, value earning out should be straightforward with payment of scheduled coupons and repayment of principal at the stated maturity. Maturity is the "day of reckoning." Of course, the potential for capital appreciation may also occur should events cause early repayment of debt and/or spread tightening.

Excess High Yield Spread Over Investment Grade
(Monthly 9/30/00 through 9/30/24)[C]

	1-3 Years to Maturity		3-5 Years to Maturity		5-7 Years to Maturity	
	BB-BBB	B-BBB	BB-BBB	B-BBB	BB-BBB	B-BBB
Current (9/30)	**98.1**	**191.1**	**118.3**	**260**	**113.2**	**208**
Percentile	**28.8%**	**9.0%**	**29.5%**	**24.6%**	**21.5%**	**10.4%**
Max (Bps)	998.3	2,525.0	739.7	1,117.6	554.5	906.2
Max Date	11/30/08	11/30/08	11/30/08	11/30/08	11/30/08	11/30/08
Min (Bps)	46.2	115.2	41.8	119.3	54.8	130.1
Min Date	5/31/07	1/31/07	2/28/05	2/28/05	2/28/14	3/31/14

[1] Annualized performance of the student-managed portion of the portfolio, the Rosenwald Global Value Fund, was 12.54% since inception, outperforming the MSCI by 1.66% per year (11/30/12 to 6/30/24). The Rosenwald Global Value Fund is not investable to the public and is not affiliated with neither RiverPark Advisors, LLC nor CrossingBridge Advisors, LLC.

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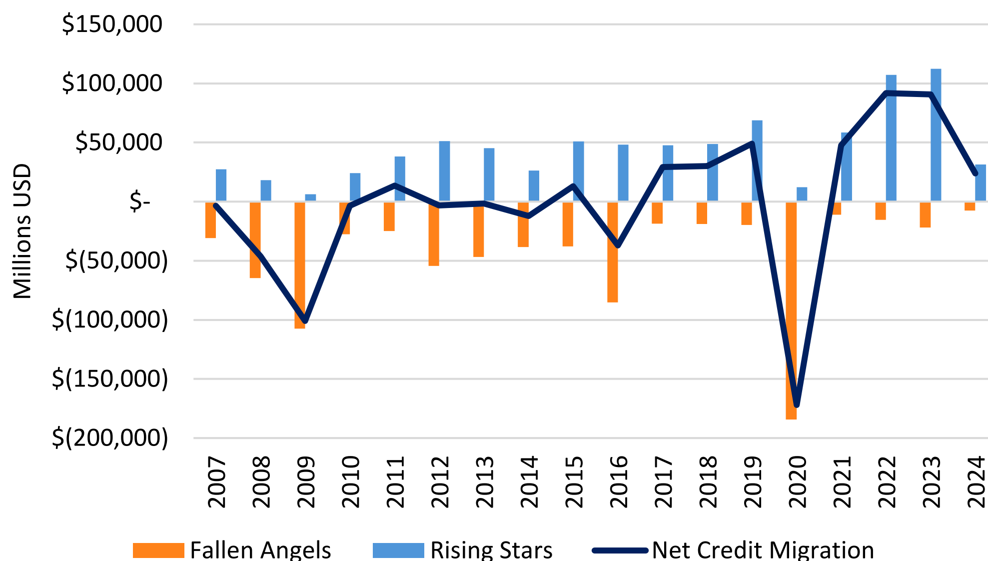
As we have discussed in prior letters, valuations remain rich. High yield bonds' yield advantage over investment grade bonds is at very low levels, reminiscent of the 2005-07 period. As illustrated by the table above, the difference in yield pick-up between the lowest quality segment of investment grade (BBB) and the highest quality segment of high yield (BB) has been greater 70% of the time regardless of maturity. In other words, the spread between BBB and BB bonds was tighter only 30% of the time, based on month-end levels, over the last 24 years. Similarly, the pick-up in yield, moving one notch further down in credit quality to B, was higher approximately 90% of the time for 1-3 year and 5-7 year maturities. That is to say that the difference in credit spread between BBB and B-rated bonds is in the lowest decile. Consequently, **our portfolios are leaning into higher quality credit.**



Following the severe credit deterioration experienced during COVID, the strengthening US economy has generated positive net credit migration, the difference between the dollar volume of Rising Stars and that of Fallen Angels.[2] However, Jared Bernstein, Chairman of the U.S. Council of Economic Advisors, once said, "Expansions don't die of old age: They're murdered by bubbles, central-bank mistakes or some unforeseen shock to the economy's supply…and/or demand..."[E] **The jury is out as to whether we will have a "soft landing", "hard landing" or no landing. Regardless, we have conviction that net credit migration is likely to turn negative (especially if you consider the direct lending market).**

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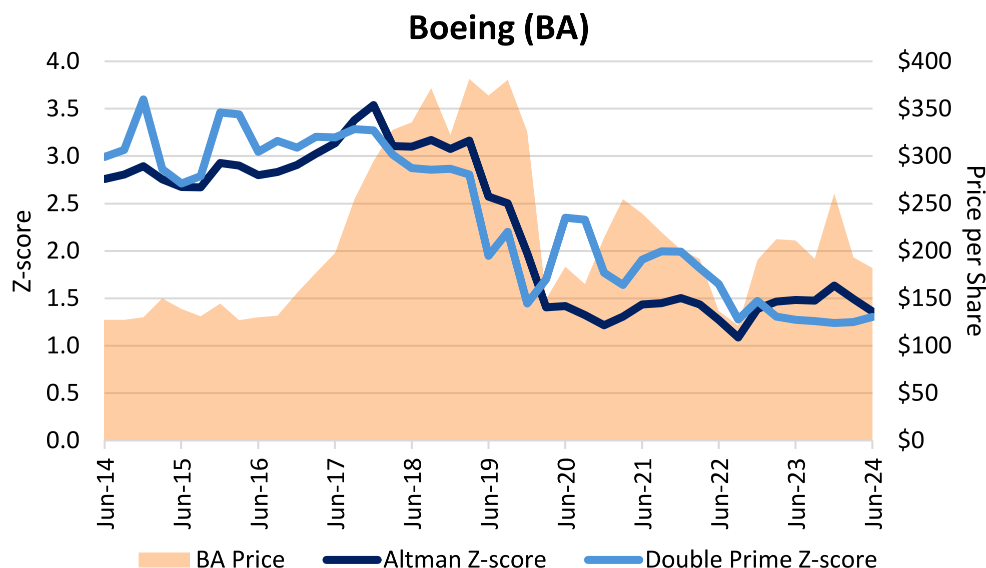
[2] Rising Stars are corporate credits that improve so that they receive ratings upgrades from high yield (BB and below) to investment grade (BBB and above). Fallen Angels are corporate credits that deteriorate and are downgraded from investment grade to high yield.



Looming over the bond market is Boeing and rating agencies' statements that they may be compelled to downgrade Boeing's credit rating to junk.[3] With $52 bn in long-term debt, Boeing would be the largest fallen angel in U.S. history. Once a revered national champion, Boeing plead guilty[4] to criminal charges related to the well-documented crashes of the 737 MAX jet.[5] The company's failures go beyond the MAX. Two American astronauts remain stranded on the International Space Station because Boeing's Starliner was deemed to be structurally unsafe, posing too much risk to be used to return the astronauts to Earth. Credit market participants have been wary. The graph above shows that changes in Boeing's Altman Z-score,[6] a measure of default probability, has paralleled the decline in Boeing's share price. Out of concern regarding a future downgrade into high yield, buyers of Boeing's newly issued debt have been requiring, since 2020, that the coupon increase based on steps down in credit quality.[F] Boeing has recruited an aerospace industry star CEO and is attempting to stave off a downgrade by issuing equity and other junior securities.[G] At the time of this writing J.P. Morgan is recommending that long term investors "overweight the Boeing credit…Near term expect volatility."[H] Nevertheless, Boeing is **a business that fails our value investing rubric and, as disciplined investors, we don't suffer FOMO**.[7]

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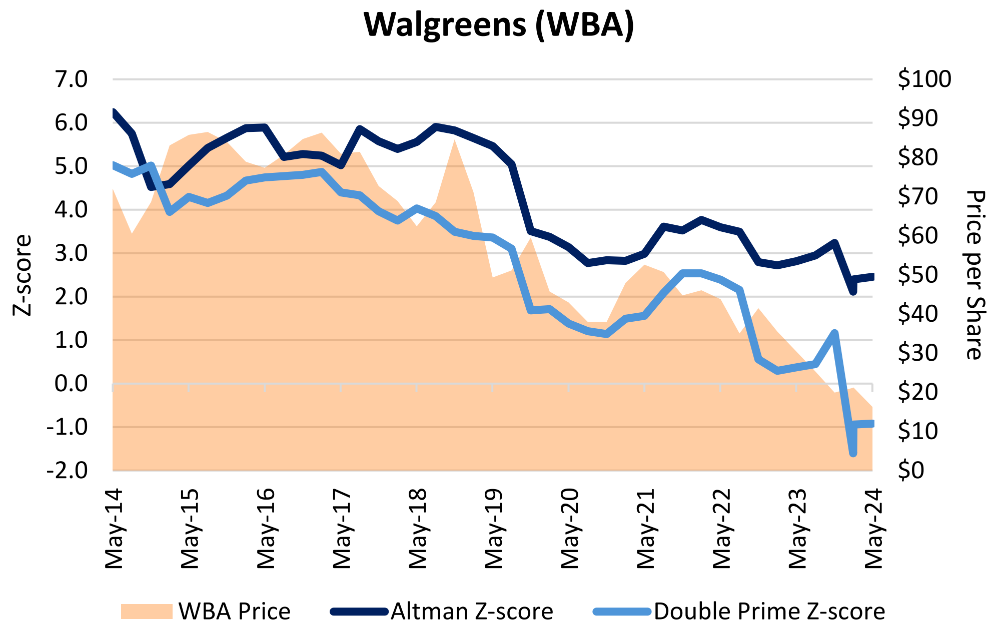
[3] "Junk" is a pejorative term sometimes used to describe high yield bonds.
[4] In July 2024, Boeing plead guilty to criminal fraud conspiracy charges and agreed to pay a $244 mm fine to resolve a U.S. Justice Department investigation of the two fatal 737 Max crashes. The plea deal is subject to a judge's approval and would brand the company a convicted felon.
[5] For additional information, see *Boeing and the Dark Age of American Manufacturing*, The Atlantic, April 20, 2024
[6] The Altman Z-Score is the result of a mathematical model, incorporating a company's profitability, leverage, liquidity, solvency, etc., that calculates the probability of a company's default. A score of 0 signals that the company might be headed toward bankruptcy while a score of 3 indicates a solid financial position. The model was developed by NYU Stern School of Business Finance Professor Edward Altman in 1967.
[7] "Fear of missing out"

Another Credit that Fails our Discipline (so in this case we shorted it)



Walgreens Boots Alliance (WBA) is a good example of another credit that does not measure up to our value investing principles. In anticipation of further credit deterioration, the RiverPark Strategic Income Fund is short the company's 3.2% Senior Unsecured Bonds due April 15, 2030.

The company is the nearly ubiquitous operator of retail pharmacies and other healthcare businesses with approximately 13,000 locations across the U.S., Europe, and Latin America. Deterioration in consumer spending and pharmacy reimbursement trends have pressured the company's top-line and margins, leading Moody's and S&P to downgrade the credit from investment grade to B1/BB in July 2024 and causing nearly $9 bn of debt to be added to the high yield index. In August, Walgreens issued its first high yield bond, a $750 mm senior unsecured bond due August 2029 priced at an issuance spread of 430 bps.

Rubric Analysis:

Is It a Good Business? The retail pharmacy business consists of two verticals: 1) "front of house" sales of general merchandise and 2) fulfillment of prescriptions. The retail business has high fixed costs with little pricing power and is plagued by direct-to-consumer competition and shoplifting. Walgreens and all other pharmacies are generally price takers with little ability to push back

against reimbursement pressures by PBMs, Medicare and Medicaid.[8] In general, these are not qualities of good businesses.

Is There a Margin of Safety? Walgreens bonds may look cheap relative to historic trading levels, but this may not be so given large adjustments to reported metrics. We believe "cash is king" and over the last three years free cash flow has declined from nearly $2.2 bn to a loss of $363 mm. The company's capital structure includes nearly $5 bn of debt maturing within two years, increasing reliance on non-core asset sales, sale leaseback transactions, and accommodative capital markets to address its obligations, thus lowering the perceived margin of safety. In addition to funded debt, the company is also responsible for $6.6 bn in opioid liabilities.

Is There Alignment of Interests? Stefano Pessina is the Executive Chairman and largest shareholder of Walgreens, owning nearly 17% of the shares outstanding. Equity investors are arguably aligned with Pessina as his incentive to increase a material component of his net worth will bring them along for the ride. Bondholders, however, may find themselves misaligned with the equity as the company is likely to come back to the market repeatedly to refinance maturing debt while credit quality deteriorates further.

Is There a Good Track Record of Capital Allocation? Over the last five years, Walgreens generated more than $10 bn in cumulative free cash flow, about 100% of which was returned to shareholders via dividends and share buybacks. Additionally, Walgreens allocated more than $12 bn in capital to acquisitions funded via asset sales and sale leasebacks. Walgreens has taken large impairments on these acquisitions and now has fewer hard assets.[9] Not so good for bondholders.

[8] For additional information, see *The Powerful Companies Driving Local Drugstores Out of Business*, New York Times, October 19, 2024

[9] Kinnevik, a Swedish VC firm co-investing in VillageMD alongside Walgreens, announced it had fully written off its investment. Walgreens invested more than $6 bn into VillageMD which is now in default on the $2 bn credit facility extended by Walgreens.

Mutual Fund Selected Characteristics[10]

	RPHIX/RPHYX
Yield-to-Worst (YTW)	6.01%
YTW Duration	0.29
Yield-to-Maturity	n/a
YTM Duration	0.46
Investment Grade	11.39%
High Yield	88.36%
Cash & Other	0.25%
Floating Rate	4.0%
Leveraged Loans	2.7%
Foreign Exposure	17.5%
Nordic Exposure	4.7%
"Dry Powder"	54.90%

The table above profiles our fund at quarter-end. In the current environment, **we continue to pursue four main themes:**

1) Floating rate debt – continuing to take advantage of the inverted yield curve

2) Foreign issuers – better credit characteristics with higher yields than U.S. counterparts

3) Event-driven debt – catalysts hold potential for higher rates of return

4) Higher credit quality issuers – leaning into investment grade opportunities

Credits That Measured Up (purchased in 3Q24)

Audacy Inc. (AUD), formerly Entercom Communications, is the second largest radio broadcasting company in the U.S. by revenues reaching over 118 million listeners. The impact of COVID-19, the decline in radio ad-spend, and higher interest rates, made it difficult to refinance its debt. Audacy filed a pre-packaged Chapter 11 plan of reorganization in January 2024 through which it reduced debt by $1.6 bn, emerging from bankruptcy in September 2024.

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[10] Dry powder is defined as the sum of cash, cash equivalents, pre-merger SPACs, and maturities of 90 days or less.

Rubric Analysis:

Is It a Good Business? As a terrestrial radio broadcaster in local and national ad markets, Audacy generates revenues by selling advertising time on their channels. Listenership for traditional radio is in secular decline due to market disruptors including Spotify, Apple Music, and SiriusXM. Although revenue is falling 1-2% per year, that fact alone does not mean that radio is a bad business. Radio broadcasting is a capital-lite business requiring minimal annual capital expenditures once a station is built. The variable costs of content are based on the songs played at the station, not on audience reach. This makes radio a cheap medium. Although the advertising business is cyclical, radio is less elastic[11] and is buffered by high cash margins. Regardless, to withstand the cyclical ups and downs operators should maintain conservative balance sheets with low leverage.[12]

Is There a Margin of Safety? Post-bankruptcy, we estimate Audacy will have net debt of approximately $310 mm, or 48% loan-to-value against their mid-point reorganization enterprise value of $650 mm.[13] Audacy's long-term debt is split into two tranches: 1) a SOFR[14] + 700 bp $25 mm First-Out Exit Term Loan due 2028 with 0.9x leverage and 2) a SOFR+600 bp $225 mm Second-Out Exit Term Loan due 2029[I] with 2.5x leverage.[15] CrossingBridge purchased pre-petition bank debt at a substantial discount to face value in the weeks following Audacy's bankruptcy filing and joined the Ad-Hoc Group of Term Lenders. In addition, we worked with a broker to purchase the First Out Exit Term Loan on a "when issued" basis, settling the trade when Audacy emerged from bankruptcy in September 2024. The bankruptcy process is a cleansing experience in which the balance sheet has been repaired and a margin of safety has been re-established.

Is There Alignment of Interests? Post bankruptcy, David Field will remain at the helm as CEO, backed by deep-pocketed Soros Fund Management. David Field represents the second generation of leaders to run the radio business with roots dating back to 1968 when David's father started the business. The strong debt covenants align interests with shareholders. As a participant in both the debt and equity[J], we are comfortable with the alignment of interests and expect to earn an appropriate return on capital.

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[11] "Elasticity" refers to the price elasticity of demand defined as the sensitivity of the quantity demanded of a good or service relative to a change in its price. In the case of radio advertising, "less elastic" means that demand for the radio advertising time does not increase or decrease significantly if pricing falls or rises.

[12] Leverage is defined as total debt divided by EBITDA. EBITDA is earnings before interest, taxes, depreciation, and amortization.

[13] Per Audacy's Disclosure Statement

[14] Secured Overnight Offer Rate, a broad measure of the cost of borrowing cash overnight which is commonly used as the based rate for determining the interest rate on floating rate debt.

[15] Leverage based on FY24E EBITDA as provided in Audacy's Disclosure Statement

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Is There a Good Track Record of Capital Allocation? Arguably, Audacy's trip to bankruptcy court was the result of a poor capital allocation decision. The Company purchased CBS Radio at an elevated valuation, with too much debt financing, to complete the transaction. We believe the new majority shareholder, Soros Fund Management, will provide the necessary discipline to avoid previous mistakes.

M2S Group (MSGPIN) – Familiar with the predecessor to M2S, it did not take long for us to get up to speed; this reflects the fact that if you've been around long enough, you see high yield opportunities repeat.[16K] M2S is a producer of specialty coatings and chemicals used in thermal printing of labels and tags. Major customers include Amazon, Delta Airlines, FedEx, Starbucks, Dunkin Donuts, Walmart, etc. To refinance its existing debt and fund a major acquisition, MS2 hired Jefferies to raise an $870 mm leveraged loan. In order to win the mandate, Jefferies backstopped the financing with the expectation that the "hot" leveraged loan market would accept loose financing terms and aggressive pricing. The syndication process dragged on longer than usual, causing Jefferies to feel pressure that it might have to fund the loan. Push-back by prospective lenders resulted in improved lender protections in the credit agreement and a reduction in the offer price from 99 to 93, increasing the yield-to-maturity to over 12.00%.[17] CrossingBridge participated in the M2S Group SOFR + 475 bp $870 mm First Lien Term Loan due 8/22/31.

Rubric Analysis:

Is It a Good Business? Following the acquisition, the company became the only vertically integrated participant and remains a market leader. In addition to the cross-selling and margin benefits of vertical integration, the acquisition also provides the company with greater insight into the supply chain, demand trends, and the development of new products. Generally, labels add little to the total end-user cost, providing the company with pricing power. At the same time, increased use of labels, especially in the foodservice, medical, and transportation markets, can have dramatic efficiency benefits. Due to systems and printer integration requirements, customer relationships tend to be long term and very "sticky." These are characteristics of a good business.

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[16] The predecessor of M2S was Appvion, which filed bankruptcy in 2017. At the time, the company's business was in transition with the carbon copy paper and point-of-sale paper businesses in decline, while the thermal printing chemical business was in ramp-up stage. In addition, the company's capital structure was problematic as the interest payments on the second lien term loan and payouts to ESOP (Employee Stock Ownership Participation) participants drained a significant portion of cash flow out of the company. CrossingBridge held a portion of the pre-petition first lien term loan. Term loan lenders, whose position converted to equity in the reorganization, received a recovery in excess of par if they held the position until the final sale of the company. Already involved and familiar with the company, we opportunistically purchased additional post-reorg equity, capturing additional gains.

[17] *Jefferies-Led Bank Group Loses $15 Million Underwriting M2S Loan*, Bloomberg, August 22, 2024

Is There a Margin of Safety? Based on historic financial results, pro forma for the acquisition, the company appears to have significant ability to repay debt via future cash flows, after scheduled debt service payments and maintenance capital expenditures.

Is There Alignment of Interests? The private equity sponsor has a 25-year track record in middle-market private equity, investing $9.2 bn via six funds, giving us some level of confidence. Since its initial acquisition, the company has used free cash flow to repay debt and the sponsor has stated its intention to continue this practice subject to growth opportunities. The strong covenant package constrains the ability of the company to increase leverage or pay dividends that would be detrimental to lenders.

Is There a Good Track Record of Capital Allocation? The 2017 Chapter 11 cleansed the capital structure and allowed the company to sell unprofitable and non-core operations. Since 2021, the company has made two transformative acquisitions that successfully accelerated growth across capabilities and end-markets. That said, as noted above, a strong set of covenants imposes limits on the company's capital allocation plans.

Back to School was a 1986 comedy starring Rodney Dangerfield as a wealthy but uneducated father who goes back to college with his uninspired son. Craziness ensues, culminating in Dangerfield giving the commencement speech in which he says: "It's a jungle out there. You gotta look out for number one. But don't step in number two." Similarly, our number one priority is looking out for our investors; our number two priority is avoiding accidents. As we have said many times, return of capital is more important than return on principal.[18]

A student of value investing,

DKS

David Sherman and the CrossingBridge Team

[18] It is unclear whether this sentiment originated with the writer Mark Twain, cowboy star and humorist Will Rogers, or someone else, but it has been echoed by Graham & Dodd and Warren Buffett.

Endnotes

[A] Jamie Rosenwald is Co-Founder and Portfolio Manager of Dalton Investments, a $4.3 bn global investment management firm focused on active management of long only and long/short strategies. Frank Brochin is the Chief Investment Officer of The Colony Group's Family Office Practice. Spencer Rolfe, a member of the CrossingBridge Advisors research staff, is the Teaching Assistant for the class.
[B] Joseph S. Steinberg, quoted in the diagram, is Chairman of Jefferies Financial Group and one of my business mentors.
[C] Based on the option-adjusted spreads from 9/30/20 to 9/30/24 for the ICE BofA US bond indices for BBB, BB and B bonds with maturities of 1-3 years, 3-5 years, and 5-7 years.
[D] Bank of America Global Research
[E] Jared Bernstein in the Washington Post, July 5, 2018
[F] *Boeing Company – Thoughts on the Risk of a Downgrade to High Yield*, J.P. Morgan, October 10, 2024
[G] *Boeing hone $15 billion financing plan to weather crisis, sources say*, Reuters, October 17, 2024
[H] *Boeing Company – Thoughts on Preliminary 3Q24 Results*, J.P. Morgan, October 14, 2024
[I] The exchange of the SOFR + 250 bp CBS Radio/Entercom Term Loan B2 due 2024 into the Audacy S + 600 bp Second Out Term Loan due 2029 and equity warrants was effected on 10/1/24, the day after the Audacy Plan of Reorganization went effective. As such, no CrossingBridge Funds held a position in the Audacy S + 600 bp Second Out Term Loan due 2029 on 9/30/24.
[J] The exchange of the SOFR + 250 bp CBS Radio/Entercom Term Loan B2 due 2024 into the Audacy S + 600 bp Second Out Term Loan due 2029 and equity warrants was effected on 10/1/24, the day after the Audacy Plan of Reorganization went effective. As such, no CrossingBridge Funds held a position in the Audacy equity warrants on 9/30/24.
[K] On Appvion's Chapter 11 filing date, funds advised by Cohanzick Management LLC (CrossingBridge's predecessor) held, in aggregate, $6.55 mm of the Appvion First Lien Term Loan due 6/28/19.

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RIVERPARK FUNDS

RiverPark Short Term High Yield Fund
(RPHIX/RPHYX)

Third Quarter 2024

RIVERPARK SHORT TERM HIGH YIELD FUND
September 30, 2024

	RiverPark Short Term High Yield Fund Performance		BofA 1-3 Yr U.S. Corp Index[1]	BofA 1-Year U.S. Treasury Index[2]	BofA 0-3 Yr U.S. HY Index Ex-Financials[3]
	RPHIX	RPHYX			
3Q24	1.38%	1.32%	3.16%	2.03%	4.55%
YTD 2024	4.39%	4.11%	5.18%	4.01%	7.93%
One Year	6.30%	5.97%	8.37%	5.87%	11.82%
Five Year	3.45%	3.18%	2.29%	1.99%	5.34%
Ten Year	3.03%	2.76%	2.28%	1.55%	5.30%
Since Inception*	3.26%	2.98%	2.30%	1.21%	5.42%

** Total Returns presented for periods less than 1 year are cumulative, returns for periods one year and greater are annualized. Fund Inception Date: September 30, 2010.*

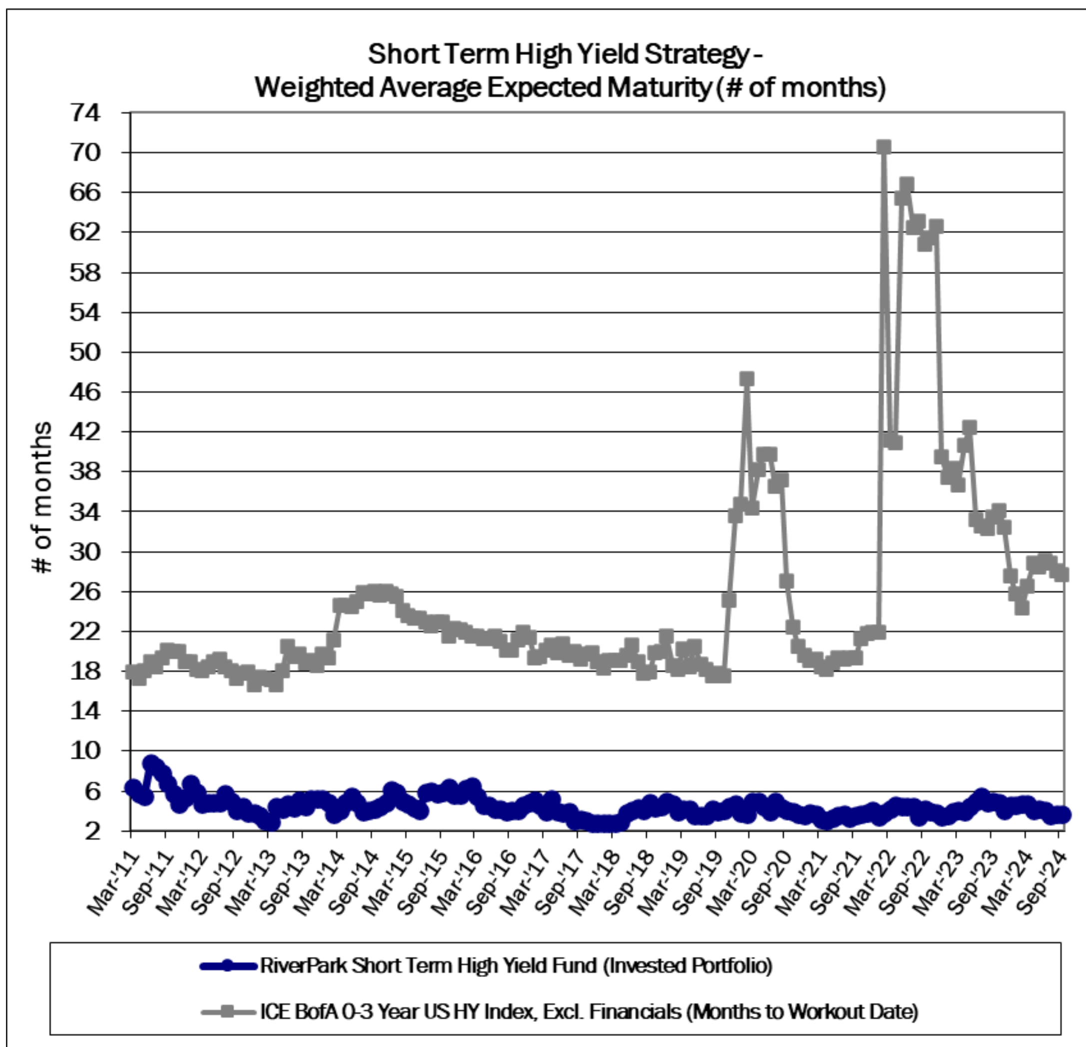
The performance quoted herein represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be higher or lower than the performance. For performance current to the most recent month end, please call 1.888.564.4517 or visit www.riverparkfunds.com.

Gross expense ratios, as of the most recent prospectus dated 1/26/2024, for Institutional and Retail classes are 0.92% and 1.19%, respectively. Gross Expense Ratio does not reflect the ability of the adviser to recover all or a portion of prior waivers, which would result in higher expenses for the investor. Please reference the prospectus for additional information.

[1] The BofA 1-3 Year U.S. Corporate Index is a subset of the BofA U.S. Corporate Master Index tracking the performance of U.S. dollar denominated investment grade rated corporate debt publicly issued in the U.S. domestic market. This subset includes all securities with a remaining term to maturity of less than 3 years. [2] The BofA 1-Year U.S. Treasuries Index is an unmanaged

index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of less than one year. [3] The BofA 0-3 Year U.S. High Yield Index Excluding Financials considers all securities from the BofA US High Yield Master II Index and the BofA U.S. High Yield 0-1 Year Index, and then applies the following filters: securities greater than or equal to one month but less than 3 years to final maturity, and exclude all securities with Level 2 sector classification = Financial (FNCL).

As of September 30, 2024, the portfolio was comprised of securities with an average maturity of 3.66 months. The average maturity is based on the Weighted Average Expected Effective Maturity, which may differ from the stated maturity because of a corporate action or event.



Source: Bloomberg Professional Analytics

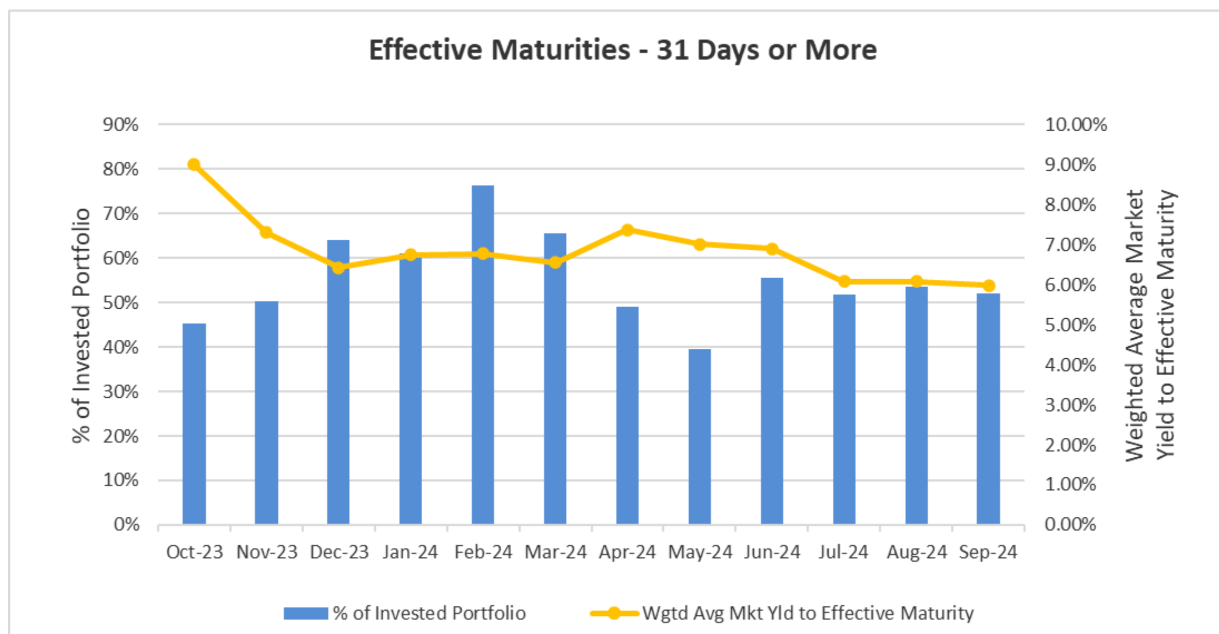
At quarter-end, the invested portfolio had a weighted average Expected Effective Maturity of 1/17/25, and 48.05% was comprised of securities with an Expected Effective Maturity of 30 days or less. Below is a more specific breakdown of the portfolio's holdings by credit strategy:

% Of Invested Portfolio As of 9/30/24

Expected Effective Maturity	Redeemed Debt	Event-Driven	Strategic Recap	Cushion Bonds	Short Term Maturities	
0-30 days	41.15%		1.13%		5.77%	**48.05%**
31-60 days			4.12%	2.82%	5.61%	**12.54%**
61-90 days			0.32%		2.27%	**2.59%**
91-180 days	1.07%	2.67%	0.48%		6.83%	**11.05%**
181-270 days	5.68%	4.23%			5.38%	**15.29%**
271-365 days						**0.00%**
1-2 years					10.47%	**10.47%**
2-3 years						**0.00%**
	47.90%	**6.90%**	**6.05%**	**2.82%**	**36.33%**	**01/17/25**

Source: CrossingBridge

As of September 30, 2024, the Weighted Average Market Yield to Effective Maturity was 5.98% for Effective Maturities of 31 days or more. That comprised 55% of the invested Portfolio.



RiverPark Short Term High Yield Fund (RPHIX) – 30-Day SEC Yield as of 9/30/24: 4.30%

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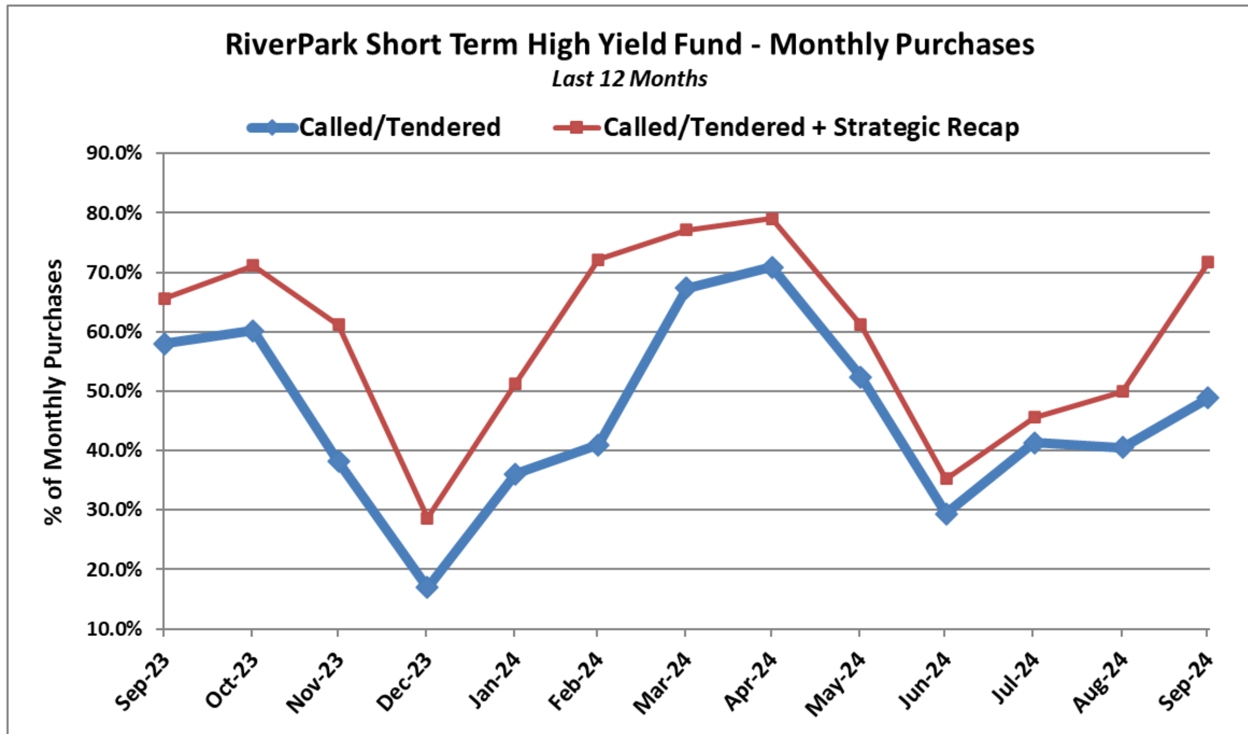
New purchases made by the Fund during the quarter consisted of 44.1% Called/Tendered, 4.1% Event-Driven, 12.9% Strategic Recap, 0.1% Cushion Bonds, and 38.9% Short Term Maturities. Called and Tendered securities continue to be a significant component of our purchases. The supply of these bonds remained ample during most of the period.

When combining Called/Tendered purchases with Strategic Recap (which represent securities that are in the process of being refinanced but have not yet been officially redeemed), the figure reached 56.9% of our purchases during the quarter. We will continue to try focusing a large portion of the Fund in redeemed or soon-to-be redeemed securities, especially in times of market weakness, both to keep the Fund's duration short, as well as to help ensure that adequate pools of near-term cash are available to take advantage of attractive new purchases.



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