



# RiverPark Short Term High Yield Fund (RPHIX/RPHYX)

## 4Q 2023 Commentary

### People Get Ready<sup>1</sup>

*People get ready, there's a train a-comin'  
You don't need no baggage, you just get on board*



Written in 1965, a tumultuous time of social change and civil unrest, the song, *People Get Ready*, expresses optimism that faith and love will win out. Today, there is a convergence of economic, political, social, and technological transformation. This is likely to cause changes in our daily lives and may bring about a significant increase in volatility in the financial markets, both positive and negative. We are not in the business of predicting these outcomes nor are we likely to catch a wave of momentum that sweeps through the capital markets based on forecasts.<sup>2</sup> Rather, we are value investors and expect to outperform in the long-term by taking a bottom-up approach, focusing on companies that will generate cashflows to meet their obligations as they approach their day of reckoning (also known as “maturity”).<sup>3</sup> Although change may be disruptive, it allows us to embrace the opportunities created by greed and fear.

Notwithstanding our bottom-up approach, we have several thoughts regarding the macroeconomic environment:

- The yield curve is likely to flatten and should ultimately normalize to an upward sloping curve instead of the inversion we have today.
- Risk premium will return to compensate investors and curb speculation.

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<sup>1</sup> The song “People Get Ready”, originally recorded in 1965 by the Impressions, was written by the group’s lead singer, Curtis Mayfield. It is a response to the rapid social change and civil unrest of another era, but its message resonates today in a time when rabid partisanship, deepening rifts on social issues and sharply different views within the electorate.

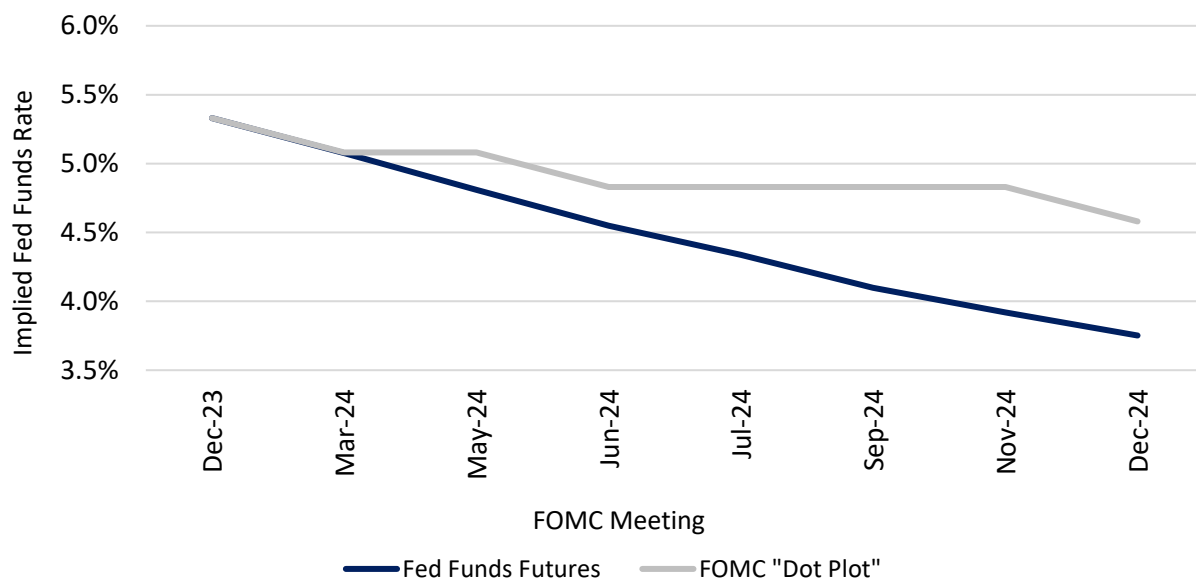
<sup>2</sup> As seen in November and December

<sup>3</sup> In the case of stressed and distressed situations, the objective is more likely to be “return of capital in excess of purchase price” rather than repayment in full at maturity.



- Inflation has abated from the recent highs but will remain elevated similar to the 1990s when it averaged 2.80%.
- On a risk-adjusted basis, the portion of the yield curve we find most attractive has a maturity of 3 years or less.
- The underpinnings of the U.S. economy are more durable than generally perceived. For example, the banking crisis<sup>4</sup> of spring 2023 was short-lived and easily contained.

### Fed Funds Futures vs FOMC "Dot Plot"<sup>A</sup> December 29, 2023



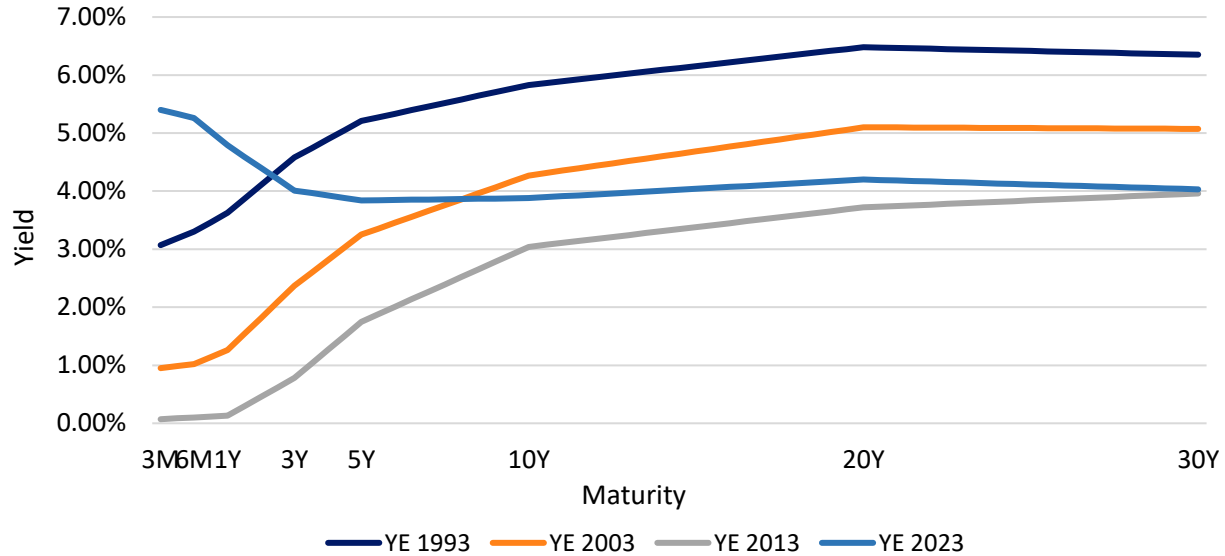
At year-end 2023, Fed Funds Futures were projecting seven 25 basis point reductions in the Fed Funds Rate, totaling 175 basis points, and bringing the rate down to approximately 3.75% by the end of 2024. This is in sharp contrast to the “dot plot”<sup>5</sup> which indicated expectations for a total decline of 75 basis points to an effective rate between 4.50% and 4.75%. Clearly one of these projections, and perhaps both, will be wrong with significant ramifications for the markets.

<sup>4</sup> In spring 2023, First Republic Bank, Silicon Valley Bank, and Signature Bank, the 14<sup>th</sup>, 16<sup>th</sup> and 29<sup>th</sup> largest U.S. banks ranked by the Federal Reserve by asset size, failed. On a combined basis, these three banks would have had assets of \$532 billion as of 12/31/22, which would have ranked as the eighth largest U.S. bank ahead of Goldman Sachs (\$487 billion in assets).

<sup>5</sup> The FOMC “dot plot” reflects the expectations of the members of the Federal Open Market Committee with respect to interest rates over the next several years. In the graph above, we assumed that the 75 basis point decline in rates in 2024 implied by the majority of FOMC members would be effected via three 25 basis point reductions taking place at the March, June, and December Federal Reserve meetings. This is in keeping with the Fed’s effort to appear apolitical by avoiding policy changes in the months just prior to a Presidential election.



### US Treasury Yield Curves<sup>B</sup>



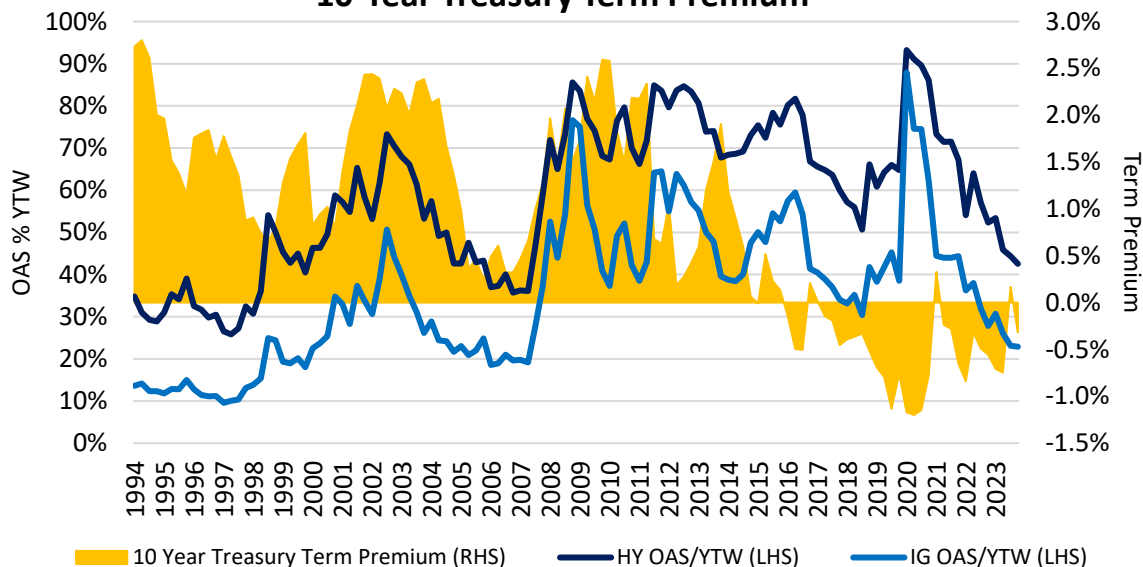
The graph above shows the yield curve as it was at year end and as of 10, 20 and 30 years ago. The difference is stark and shows that, in order to achieve a “normal” yield curve, rates will need to decline for maturities less than three years.<sup>6</sup> If the projection for short-term rates based on Fed Funds Futures is correct, the curve would be essentially flat; if the dot plot is correct, the curve would still be inverted. In both cases, the real rate of interest<sup>7</sup> would still be positive. Thus, if it is the Fed’s objective to achieve a normal curve and restore the proper incentives with respect to speculation, investment and lending, short rates will need to fall further and/or longer rates will need to rise.

<sup>6</sup> Of course, if the yield for maturities longer than 3 years rose substantially, in excess of 150 basis points, the curve would also be upward sloping, a really bad outcome for those investors extending duration.

<sup>7</sup> The “real rate of interest” is the difference between a nominal interest rate and the inflation rate.



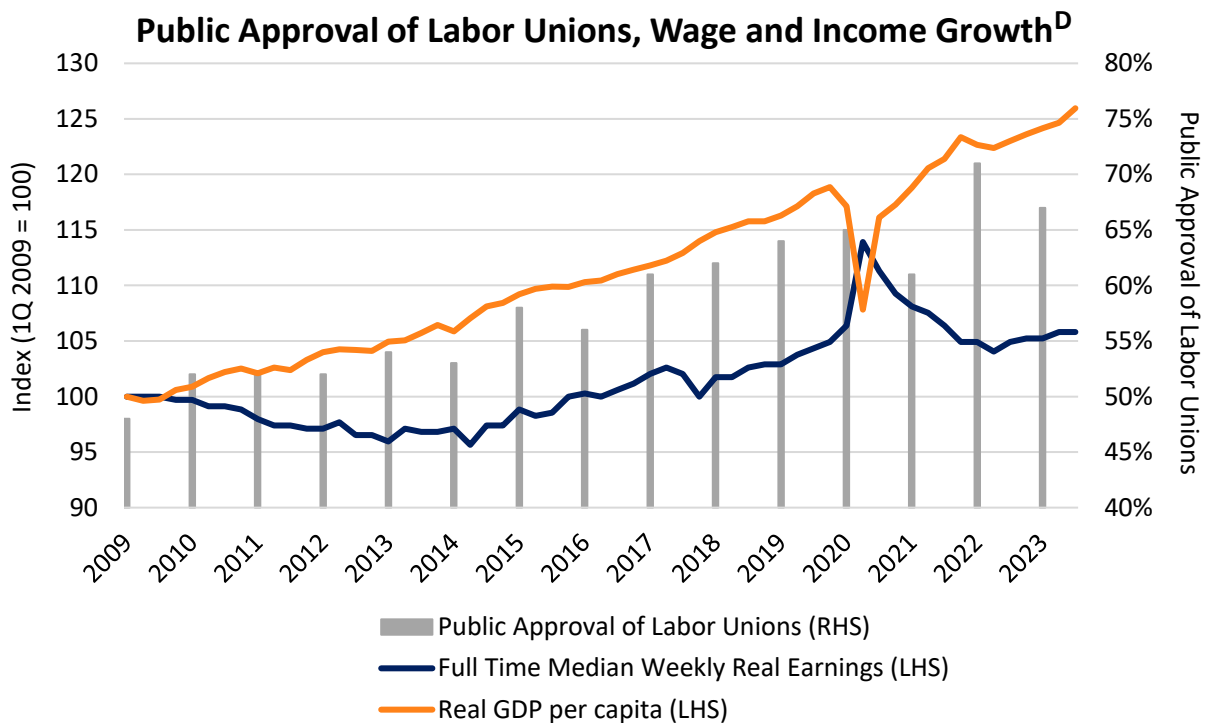
### IG and HY Option-Adjusted Spreads % YTW and 10-Year Treasury Term Premium<sup>C,8</sup>



In our opinion, the fixed income markets are underpricing risk. The 10-year U.S. Treasury term premium reflects the additional compensation that investors earn by taking on the risk<sup>9</sup> of investing longer-term. At year-end, the term premium was negative, providing little incentive to make long-term fixed income investments other than for asset/liability matching or interest rate speculation. Credit spreads reflect the additional premium paid to investors for underwriting repayment risk. As a percentage of the yield-to-worst (YTW) earned on investment grade (IG) and high yield (HY) debt, credit spreads are low. The graph above illustrates this point by comparing the credit spreads on IG and HY debt to the YTW of each type of debt. At year-end 2023, the credit spread as a percentage of the YTW for IG debt was 23% while, for HY debt, the credit spread was 43% of the YTW, the tightest levels since the '05-06 period. As value investors, our job is to find investments for which one is compensated for term premium and credit risk.

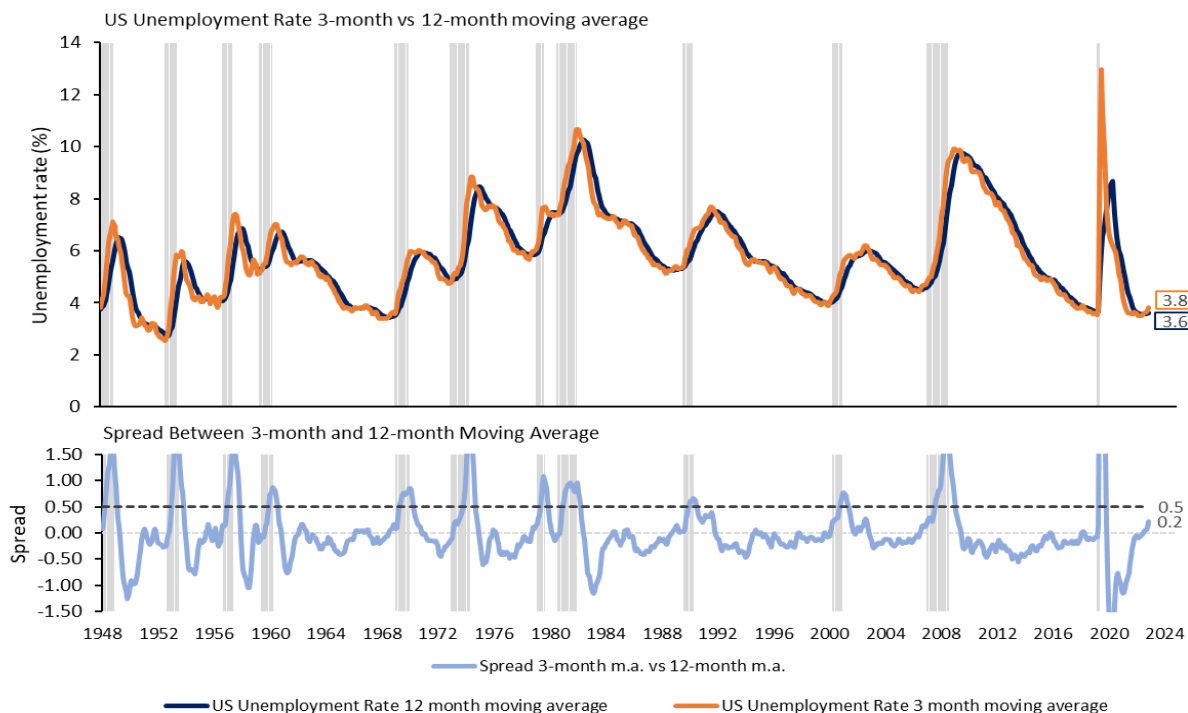
<sup>8</sup> The option-adjusted spread (OAS) is the difference between a fixed-income security's yield-to-worst and the risk-free rate of return, typically the yield of a U.S. Treasury bond with similar maturity, adjusted for the embedded option for the security's issuer to call or prepay the instrument. In the graph, the Bloomberg Baa Corporate Total Return Index is used as a proxy for the investment grade market and the Bloomberg US Corporate HY Index is used as a proxy for the high yield market.

<sup>9</sup> The primary risks in a long-term U.S. Treasury bond are market volatility and inflation which would cause a loss of purchasing power for holders of fixed rate bonds.



An ongoing rise in wages, which both drives up costs for employers and increases consumer demand (since workers will have more money in their pockets) will likely cause inflation to remain elevated. Despite the 10-year rise in real earnings shown above, real per capita GDP has been growing faster than real earnings, widening the wealth gap, and causing workers to feel that they have been left behind while corporate profits rise to the benefit of stock market investors. Although the low level of unemployment since COVID has been an important factor in recent wage increases, the rising public approval of unions may have enhanced the effectiveness of collective bargaining, another driver of real wage gains.

## The Sahm Rule Indicator<sup>E</sup>

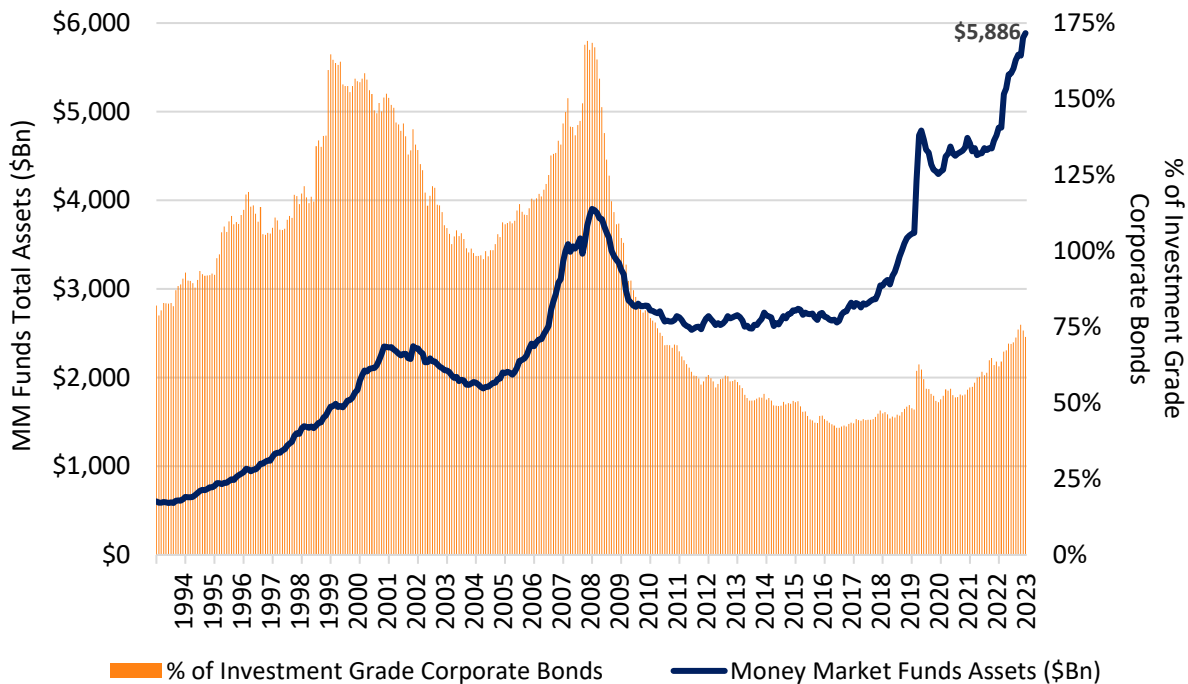


Some are arguing that we are headed toward a recession based on the recent rise in unemployment. There is the potential for this to continue, but this concern would be reduced if the Fed follows its own dot plot and reduces short-term interest rates. Moreover, unemployment is lower than in 86% of the monthly periods going back to 1948. The last recession that started when unemployment was lower than it is currently was in 1970. Thus, while the Sahm Rule Indicator<sup>10</sup>, shown above, may be “flashing yellow” with respect to rising risk of recession, a recession that starts with such low unemployment is likely to be mild.

<sup>10</sup> The Sahm Rule Indicator identifies the start of a recession as the point at which the three-month moving average unemployment rate rises 0.5% or more above the lowest unemployment rate for the last 12 months.



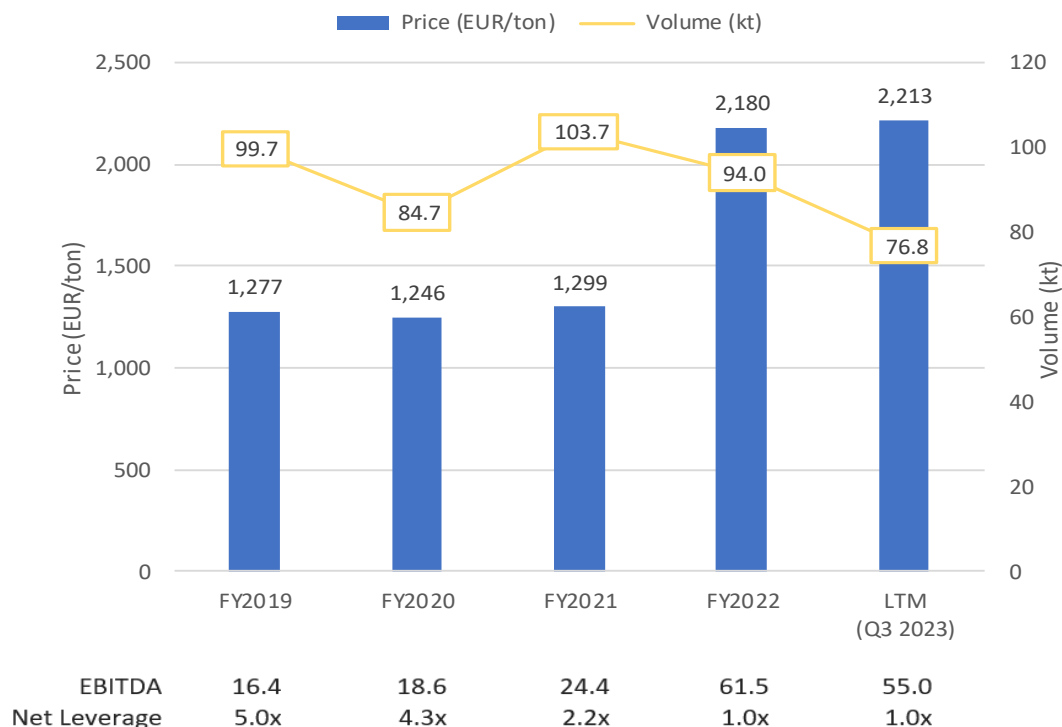
### Money Market Fund Assets % of Investment Grade Corporate Bonds<sup>F</sup>



We believe that cash is a legitimate asset class to hold when one is not being paid appropriately for risk. The \$1.2 trillion spike in money market assets over the last 24 months reflects investors seeking to capture the high short-term interest rates resulting from the Fed’s restrictive monetary policy. Money market fund assets are at a 30-year high, but this generally reflects the growth in dollars in the economy as a result of inflation and market appreciation in all asset classes over the last three decades. Moreover, as a percentage of the capital in most asset classes (investment grade bonds are shown as an example above), money market funds are far from their highest level. We are mindful that significant flows of capital in or out of an asset class can drive rapid price movement, both up and down.



### European Materials Company<sup>G</sup>



More directly related to credit quality, we have concern with respect to future corporate profitability. As a result of COVID-related supply chain constraints and increased raw material and labor costs, companies found it relatively easy to achieve price increases over the last few years, improving profit margins. The good news is that companies were able to build cash, repay debt and generally improve their capital structures. We are concerned, however, that this is not sustainable. Since peaking in January 2022 at 10.0 (on a 1-10 scale), supply chain congestion, according to Goldman Sachs,<sup>H</sup> has declined to 2.0 at year-end 2023, reducing this cost pressure. The graph above reflects the recent performance of a private company whose bonds we follow. The company has been able to de-lever over the past few years as a result of sharply higher pricing applied to relatively stable volume.<sup>11</sup> Most recently, however, volume has declined while pricing has remained high. As a result, we have already seen a 10% decline in EBITDA in the last 12-month period ended 9/20/23. This raises the question as to whether there is price elasticity such that a reduction in price would spur higher demand. Similar to many companies that produce specialized, value-added products, it seems unlikely that a reduction in price would have a significant impact on demand. However, this company has high operating leverage so that a

<sup>11</sup> At 3Q23, net leverage was 1.0x. If EBITDA were to drop to the 2019 level, net leverage would rise to 3.4x, but this would still be better than the 5.0x net leverage in 2019.





change in volume has a much greater impact on profitability and poses a risk to profitability. A slowing economy would raise concerns with respect to demand for companies throughout the economy; the possibility should not be dismissed.

On December 13, 2023, the 2-year Treasury rate declined by 30 basis points following the release of the Fed's statement from its FOMC meeting. This also drove sharp rallies in equities and corporate credit. The reaction to the Fed's announcement reminds us of the markets' volatility and unpredictability. During 2023, the 10-year Treasury yield rose from 3.25% in April to 5.00% in October and finished the year below 4.00%. As we have seen, this type of volatility is a double-edged sword that can cut both ways. While we are cognizant of the top-down/macro landscape, we do not manage the portfolios to capture gains by predicting short-term swings in price or yield. In line with our core philosophy and process, our portfolios are purely reflections of the bottom-up opportunities we are seeing in the market, not a 'bet' on duration/direction of rates. We are more comfortable with a disciplined approach to value to produce respectable and responsible long-term returns for our investors.

Below are some themes in which we find value:

- **Misunderstood or challenged investment-grade debt**
- **Deleveraging and event-driven debt**
- **Refinancing and recapitalization debt**
- **"Story" debt<sup>12</sup> which is expected to be repaid**

In 2023, the seventh edition of *Security Analysis* by Benjamin Graham and David Dodd<sup>1</sup> was issued, edited by esteemed value investor Seth Klarman, and including new commentary from an array of well-respected investors. In Introduction to Part V: The Evolution of a Value Investor,<sup>J</sup> there is a passage in which my mentor, Joe Steinberg, and Ian Cumming, discuss the essence of value investing. We share these remarks as they clearly encapsulate our approach:

"Since we believe investors cannot successfully "time" the market, we believe cash should be the residual component of the investment process. When there are no compelling opportunities at hand, we choose to wait. Sitting on your hands can be difficult when you see the portfolios of others increase in value, but we believe this is better than owning positions

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<sup>12</sup> "Story" debt is a fixed income instrument that, on a cursory basis, appears stressed or distressed, suggesting significant doubt with respect to repayment, but, after further in-depth analysis of the issuer's operating outlook, liquidity, and re-financing options, appears to have a much higher probability of repayment than initially thought.



you don't find attractive. In their fiscal year 2000 Annual Letter to Shareholders, Leucadia National Corporation's former chairman, Ian Cumming, and former president, Joseph Steinberg, spoke to this dynamic, likening themselves to groundhogs: "We pop out of our holes each and every morning and look around the marketplace for investment opportunities. The first question we ask is, 'Do we see anything that can earn more than the risk-free rate, adjusted for risk?' When the markets are as high as they have been in the last many years, we saw very little of interest and went back down in our holes...Patience is required for this process, but it is not complicated."

*Patiently waiting,*

David K. Sherman and the Cohanzick Team



## Endnotes

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<sup>A</sup> Federal Reserve dot plot from 12/13/23, Bloomberg <WIRP> page 12/29/23

<sup>B</sup> Bloomberg

<sup>C</sup> 10- Year Treasury Term Premium from Clarksons. Bloomberg US Corporate HY Index and Bloomberg Baa Corporate Total Return Index. Includes monthly data from 3/31/94 through 12/31/23.

<sup>D</sup> Gallup, Mehلمان Consulting, Federal Reserve Bank of St. Louis. Includes quarterly data from 1Q09 through 3Q23.

<sup>E</sup> Clarksons, Federal Reserve Bank of St. Louis. Includes monthly data from 11/1/48 through 10/1/23.

<sup>F</sup> Bloomberg, ICE BofA Corporate Bond Index and ICI Money Market Fund Asset Index from 1/31/94 to 12/29/23.

<sup>G</sup> “European Materials Company” and internal. Name of the issues is withheld because it is a private company.

<sup>H</sup> *GS Supply Chain Congestion Scale, Jan 2<sup>nd</sup>, 2024*, Goldman Sachs, January 2, 2024

<sup>I</sup> *Security Analysis, Seventh Edition*, by Benjamin Graham and David L. Dodd, edited by Seth Klarman (2023)

<sup>J</sup> Written by Steven Romick



# RiverPark Short Term High Yield Fund (RPHIX/RPHYX)

Fourth Quarter 2023

## RIVERPARK SHORT TERM HIGH YIELD FUND December 31, 2023

	RiverPark Short Term High Yield Fund Performance		BofA 1-3 Yr U.S. Corp Index <sup>1</sup>	BofA 1-Year U.S. Treasury Index <sup>2</sup>	BofA 0-3 Yr U.S. HY Index Ex-Financials <sup>3</sup>
	RPHIX	RPHYX			
4Q23	1.84%	1.78%	3.03%	1.79%	3.60%
One Year	5.87%	5.63%	5.61%	4.74%	11.16%
Five Year	3.11%	2.86%	2.16%	1.66%	5.00%
Ten Year	2.82%	2.54%	1.89%	1.18%	4.65%
Since Inception*	3.11%	2.83%	2.05%	0.97%	5.13%

\* 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](http://www.riverparkfunds.com).

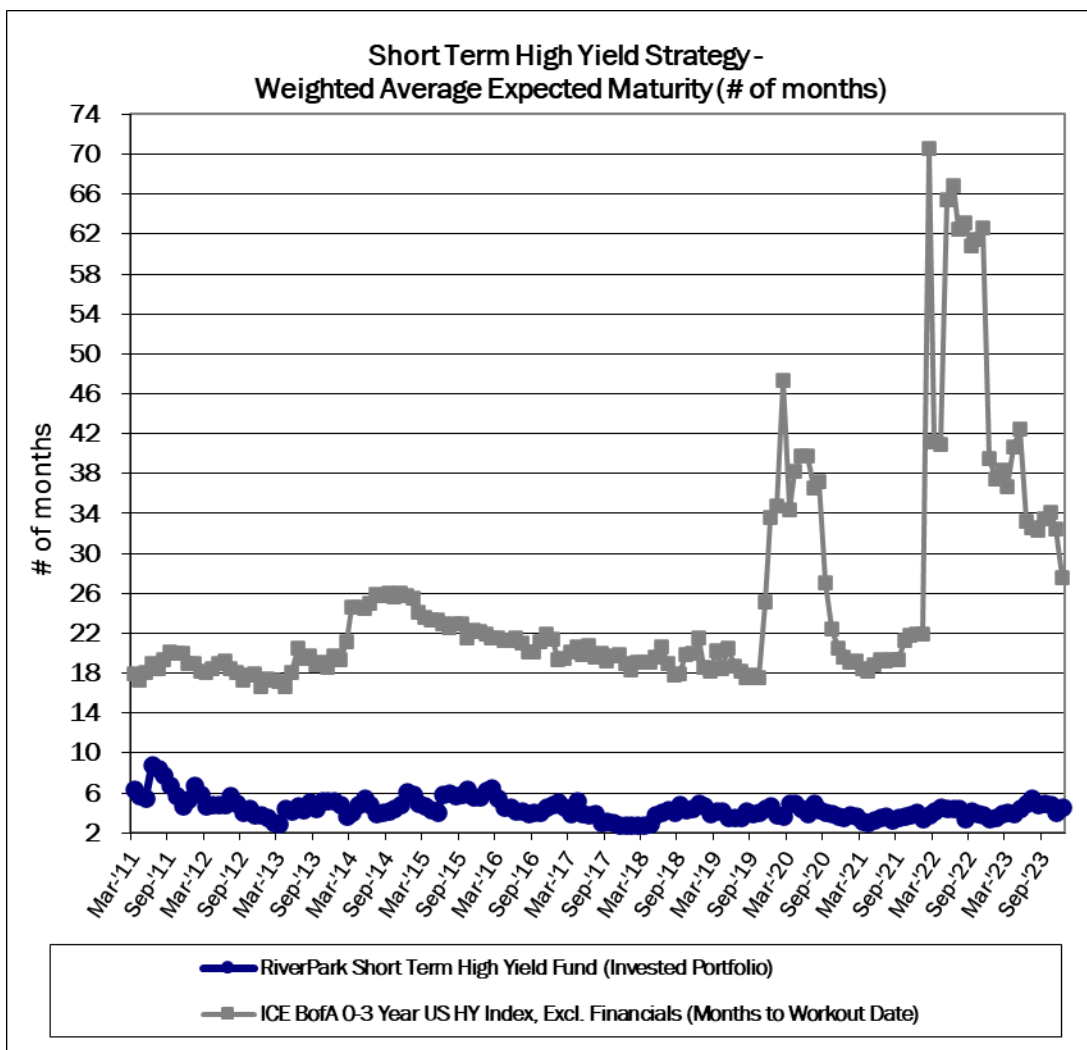
Gross expense ratios, as of the most recent prospectus dated 1/26/2023, for Institutional and Retail classes are 0.90% and 1.17%, respectively. Gross Expense Ratio does not reflect the ability of the adviser to recover all or a portion of prior waivers, which would result in higher expenses for the investor. Please reference the prospectus for additional information.

<sup>1</sup> 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. <sup>2</sup> 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. <sup>3</sup> 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 December 31, 2023, the portfolio was comprised of securities with an average maturity of 4.63 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

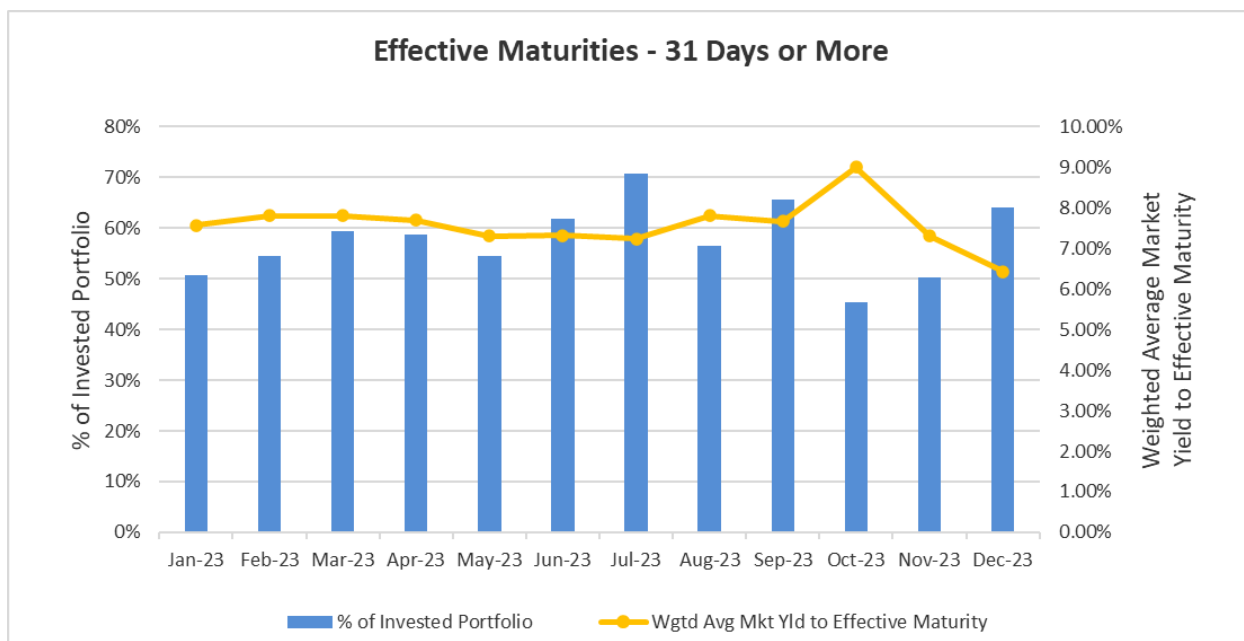


At quarter-end, the invested portfolio had a weighted average Expected Effective Maturity of 05/18/24, and 35.88% was comprised of securities with an Expected Effective Maturity of 30 days or less. Below is a more specific breakdown of the portfolio's holdings by credit strategy:

<b><i>% Of Invested Portfolio As of 12/31/23</i></b>						
<b><u>Expected Effective Maturity</u></b>	Redeemed Debt	Event-Driven	Strategic Recap	Cushion Bonds	Short Term Maturities	
0-30 days	9.30%				26.58%	<b>35.88%</b>
31-60 days	7.57%	3.01%			11.24%	<b>21.82%</b>
61-90 days			0.25%			<b>0.25%</b>
91-180 days	11.14%	3.28%	2.66%	4.15%	6.60%	<b>27.84%</b>
181-270 days		0.66%	0.06%		3.85%	<b>4.57%</b>
271-365 days					0.35%	<b>0.35%</b>
1-2 years					2.55%	<b>2.55%</b>
2-3 years					6.74%	<b>6.74%</b>
	<b>28.02%</b>	<b>6.95%</b>	<b>2.97%</b>	<b>4.15%</b>	<b>57.91%</b>	<b>05/18/24</b>

Source: Cohanzick

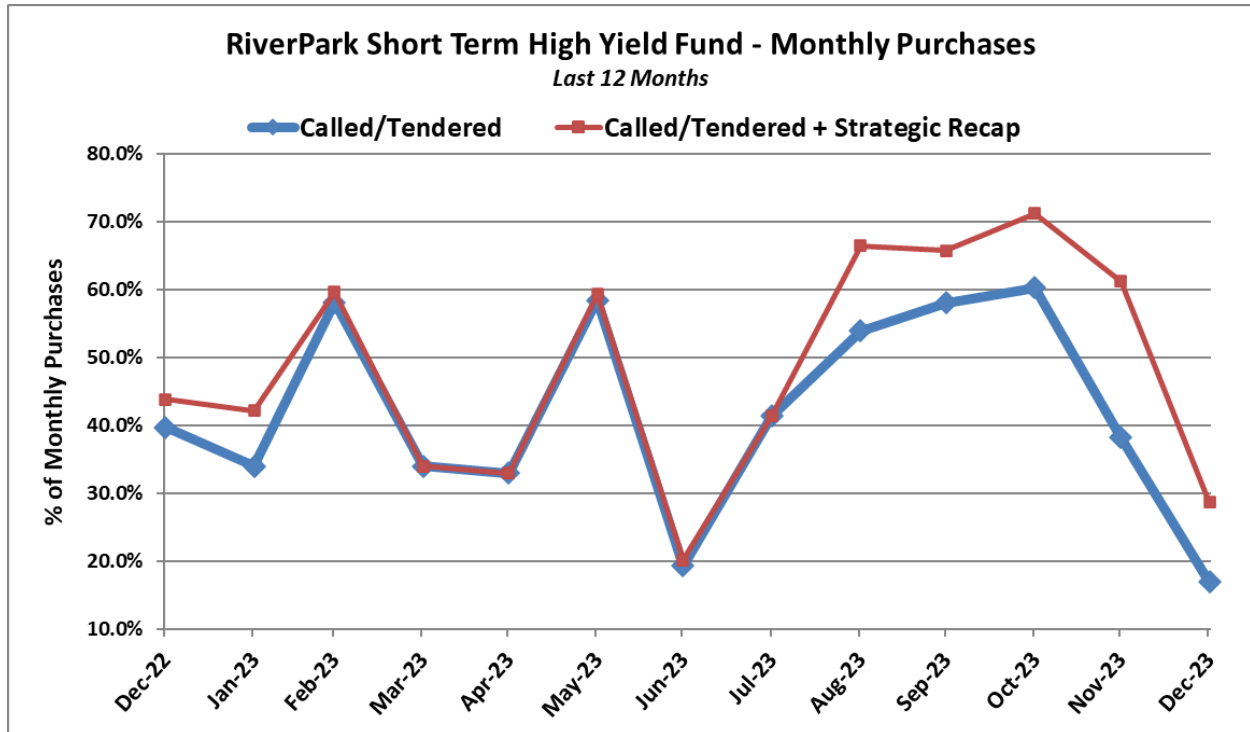
As of December 31, 2023, the Weighted Average Market Yield to Effective Maturity was 6.43% for Effective Maturities of 31 days or more. That comprised 64% of the invested Portfolio.





New purchases made by the Fund during the quarter consisted of 35.8% Called/Tendered, 2.3% Event-Driven, 16.2% Strategic Recap, 0.7% Cushion Bonds, and 45.0% 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 52.0% 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.





**This material must be preceded or accompanied by a current prospectus. Investors should read it carefully before investing.**

*Mutual fund investing involves risk including possible loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. High yield bonds and non-investment grade securities involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. The RiverPark Strategic Income Fund may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Fund, they involve a substantial degree of risk. The Fund may also invest in special purpose acquisition companies ("SPACs"). SPACs and similar entities have no operating history or underlying business other than seeking an acquisition, and in recent market conditions, SPACs have been subject to significant price volatility. There can be no assurance that the Fund will achieve its stated objectives.*

*Any direct or indirect reference to specific securities, sectors, or strategies are provided for illustrative purposes only. This material represents the portfolio manager's opinion and is an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Fund or any security in particular. Specific performance of any investments mentioned is available upon request.*

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