AXS SUSTAINABLE INCOME FUND

AXSKX

Quarterly Overview

SKY HARBOR CAPITAL MANAGEMENT

HIGH YIELD MARKET UPDATE

High yield issuers managed the unprecedented decline in economic activity more aptly than expected, which led to a widespread upside earnings surprise for the second quarter. Monetary and fiscal policy had continued to provide support for businesses and consumers although the lapsing of direct support during the quarter created some measurable headwinds to continued improvement in economic conditions. Broad-based access to capital, however, has provided a liquidity bridge to a more sustainable recovery for most non-energy-related issuers.

Defaults in the Energy sector and, to a lesser extent, Retail-related issuers remain high. Investor concerns shifted towards the US presidential election as the quarter progressed although polls and betting markets have suggested a "Blue Wave" is increasingly likely. Despite weakness late in the quarter, oil prices rose slightly in Q3 as WTI Crude closed the period up $0.95/bbl (or 2.42%) to $40.22/bbl. For the quarter the US Dollar Index was down 3.51% and Treasuries ended the period with the 2-year down 3 basis points (bps) to 0.13% and the 10-year higher by 3 bps to 0.69% as the yield curve slightly steepened.

Technicals were mixed in the third quarter of 2020 as small inflows were met with heavy new issuance. High yield funds and ETFs had inflows of $3.1bn while loan funds saw continued outflows of $5.3bn, as tracked by Lipper and reported by Barclays. Q3 bond new issuance remained high, pricing $122.1bn in the quarter, offset by $80.0bn of bond redemptions, leaving net supply at $42.1bn for the period, per Barclays. The percentage of the market trading at distressed levels (below 70% of par) ended the quarter at 4.5%; the comparable figure for the loan market (below 80% of par) was 6.6%, per JP Morgan. The par-weighted twelve-month high yield bond default rate increased to 7.2% by quarter-end, per BofA Merrill Lynch. Excluding commodities, the default rate was 4.7%.

The ICE BofA US High Yield Index returned 4.71% in Q3, ending the period with an average price of 99.14, a 4.76-point increase from the prior quarter. Credit spreads tightened by 113 bps to 535 bps and the yield-to-worst (YTW) was lower by 1.17% to 5.70%. High yield outperformed small cap equities, represented by the Russell 2000's 4.60% return, as well as investment grade corporates, as represented by the ICE BofA US Corporate Index's 1.69% quarterly return, but underperformed large cap equities, as represented by the S&P 500's 8.47% return. In high yield, the S&P U.S. High Yield Corporate Bond sub-indices returned 4.17% for BB, 4.60% B and 7.68% for CCC rated debt.

Returns were positive across all sectors for the quarter: the top performer was Leisure, which saw a 7.69% return, while Energy was the bottom-performing sector with a 2.74% return. Small issues ($350m and below) outperformed large issues ($1 billion and above) and longer duration issues outperformed shorter duration issues across risk buckets.

PORTFOLIO PERFORMANCE

The portfolio posted a strong absolute return in Q3, strongly outperforming other short dated fixed income alternatives, like the ICE BofA 1-3 year US Corporate and Government Index. By allocation, the Fund's predominately below-investment-grade positioning was a significant source of alpha, as the market rebound continued with 2Q earnings exceeding expectations and economic data showed improvement. By sector, the primary driver of performance was strong selection within the more cyclical sectors, such as Basic Industry and Capital Good, which was a focus during the quarter. This was partially offset by less total return in the Leisure sector. By rating, the portfolio benefited from the down in credit quality exposure as government and investment grade returns were much lower on a relative basis during the quarter. Our higher conviction holdings performed strongly, as half of our top 10 had total returns exceeding the portfolio return for the period, while only 11 of 173 securities had a negative total return.

OUTLOOK

Investor surveys suggest that credit investors have been most focused on the upcoming election, having shifted from a focus on the timing and pace of an economic recovery. We believe market volatility around election outcome probabilities will likely increase and risks are likely to reprice themselves according to how well they are expected to fare with different election outcomes. Our positioning is evolved towards sectors where those risks are either over- or under-discounted.

Our central scenario has not changed. We expect rising default risk in the Energy, Retail, Leisure and potentially Transportation sectors despite an eventual stabilization of coronavirus-related impact to demand over time. Defaults away from these key sectors appear to be rapidly declining as markets are willing to bridge many stressed capital structures to the time when end-market demand is sufficiently robust.

Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-needed basis and development of both a coronavirus treatment protocol and a vaccine appears likely. Spread compression is likely to continue as a result. We believe the market has excess return opportunity associated with credit picking given the high level of dispersion in the market and are managing our portfolios with the expectations of improving earnings over the next 12 months.

Past performance does not guarantee future results. Commentary provided by SKY Harbor Capital Management, who serves as the Sub-Adviser for AXS Sustainable Income Fund and is not affiliated with AXS Investments.

DEFINITIONS OF TERMS

Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Basis points (bps): One basis point is equal to 0.01%, or one one-hundredth of a percent of yield and 100 basis points equals 1%.

ICE BofA 1-3 Year Corporate & Government Index: An unmanaged index that tracks the performance of the U.S. dollar-denominated investment-grade public debt issued in the U.S. domestic bond market that have at least one year but less than three years remaining to maturity. Investors cannot directly invest in an index.

ICE BofA US Corporate Index: An index that tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the US domestic market.

ICE BofA US High Yield Index: An index that tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market.

Russell 2000 Index: Consists of the smallest 2,000 securities in the Russell 3000® Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks.

S&P U.S. High Yield Corporate Bond Indices: Designed to track the performance of U.S. dollar-denominated, high-yield corporate bonds. Qualifying securities must have a below-investment-grade rating (BBB, BB, B, CCC, CC and below based on the lowest of S&P Global Ratings, Moody's, and Fitch) and maturities of one or more months.

Yield: The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Indices are unmanaged and not available for direct investment.

IMPORTANT RISK DISCLOSURE

Mutual funds involve risk including possible loss of principal. There is no assurance that the Fund will achieve its investment objective.

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This document contains forward-looking statements that are based on SKY Harbor's current views and assumptions. Forward-looking statements such as the findings of our analytical research, our outlook for interest rates, Fed policy, the economy, high yield markets and the like, or our intended adjustments to the portfolios within our strategies are subject to inherent risks, biases and uncertainties that are beyond SKY Harbor's control and may cause actual results to differ materially from the expectations expressed herein.

The information contained herein is subject to change, and SKY Harbor is under no obligation to update any information contained herein. Certain information contained in this document has been obtained from third-party sources and, although believed to be reliable, has not been independently verified, and its accuracy or completeness cannot be guaranteed.

The market price of a security may decline due to general market conditions that are not specifically related to a particular company, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment. The prices of fixed income securities respond to economic developments as well as to changes in an issuer's credit rating or market perceptions about the creditworthiness of an issuer. High yield bonds are debt securities rated below investment grade and are speculative, involve greater risks of default, downgrade, or price declines and are more volatile and tend to be less liquid than investment-grade securities. If an issuer of a debt security held by the Fund defaults or is downgraded, or if the value of the assets underlying a security declines, the value of the Fund's portfolio will typically decline. Generally fixed income securities decrease in value if interest rates rise and increase in value if interest rates fall, with longer-term securities being more sensitive than shorter-term securities. While the Sub-Adviser believes that the integration of ESG analysis as part of the investment process contributes to its risk management approach, the Fund's consideration of ESG criteria in making its investment decisions may affect the Fund's exposure to risks associated with certain issuers, industries and sectors, which may impact the Fund's investment performance.

Market Turbulence Resulting from COVID-19. The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

Investors should carefully consider the investment objectives, risks, charges and expenses of AXS Sustainable Income Fund. This and other important information about the Fund is contained in the Prospectus, which can be obtained by calling 833.AXS.ALTS (833.297.2587). The Prospectus should be read carefully before investing.

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