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2016 Mid-Year Review and Market Outlook

> *"[Meredith] had them Apple Bottom jeans, jeans*
> *Boots with the fur, with the fur*
> *The whole club was lookin' at her*
> *She hit the floor, she hit the floor*
> *Next thing you know*
> *[Meredith] got low, low, low, low, low, low, low, low.*
> *- "Get Low", by Flo Rida (reprise)*

Readers of our past commentary may recall that we used the above lyrics in 2012 as a device to highlight how low rates were at the time, hence the "reprise". Well, today, RATES ARE REALLY LOW. At year-end 2015, the yields on 10-year and 30-year US Treasury securities were 2.27% and 3.02% respectively; at June 30, the yields were 1.47% and 2.28% respectively. That corresponds to a 35% and almost 25% move lower in yield. At year-end 2015, the yields on 10-year and 30-year "AAA" rated municipal bonds were 1.93% and 2.82% respectively; at June 30, the yields were 1.33% and 2.02% respectively. That corresponds to a 31% and 28% move lower in yield. Didn't the Federal Reserve initiate a tightening move in December 2015?

Clearly a large part of the move can be explained by the market reaction to the Brexit vote on June 23; however, looking back on the quarter and the year to date, volatility has been pronounced across all currency, commodity, fixed income and equity markets, notwithstanding the events over the past two weeks. Recall that just three weeks ago we were facing another imminent Federal Reserve rate hike; to be undone by some bad economic reads, as well as the then impending Brexit vote nine days later. And what was the outcome? The daily polls coming out of the UK showing "remain" would lead to market rallies; polls showing "leave" would lead to sell-offs. The 52% to 48% outcome on whether the UK should "leave" or "remain" members of the EU was a shock to the markets; even the UK bookies expected "remain" would be the outcome. We have reminded folks that while the equity markets (as referenced by the Dow Industrial Index) traded off 611 points on Friday, June 24 followed by an additional 260 point fall on Monday, June 27 this did not account for the rally on the back of the "remain" polls of June 19- 23 of +336 points. So while CNN can highlight the "plunge in the Dow of 900 points" (actually 871 points), we can observe that the Dow was off certainly 535 points, but no cause for hyperventilating. To close the month, the Dow rallied 790 points over the last three trading days, placing the Dow Index just 81 points off the recent high of 18,011 achieved on June 23.

So where does all this put us? Frankly the emotional response to the Brexit vote evidenced by the equity market sell-off/US Treasury rally really seemed out of sorts since the markets were nowhere near any potential September 2008 "Lehman meltdown" scenario; particularly given how the financial markets and the banking system have markedly changed since that time. For example,

US and European banks are now better capitalized and less leveraged and no one is concerned with overnight funding or liquidity. Furthermore, the European Central Bank (ECB), Bank of England and Federal Reserve all have continued to provide liquidity to the world's banking system and have gone on record that they each stand ready to provide additional liquidity should it become necessary. On Friday, the Bank of England announced likely additional measures easing monetary policy as it deals with the fallout from the Brexit vote. Lastly, the results from the Federal Reserve "bank stress tests" demonstrate unequivocally that most banks are in better shape; the series of significant share buy-back programs and dividend pay-outs announced last night are indeed noteworthy.

The Brexit vote is but one data point; it will take some time for the "implementation strategy" to take effect and in turn, enable market participants to assess outcomes. We note that the UK comprises less than 4% of the world economy and that many market participants anticipate GDP growth in the rest of the world to slow by only 0.2% over the next 12 months. So on balance, we project that US securities, which tend to be our primary focus, should be largely insulated from any "Brexit contagion". That said we will continue to monitor the various currency, commodity, fixed income and equity markets for any signs that may provide credit opportunities; either long or short.

Investing Performance. Interestingly, the above observations serve to once again provide "validation" for "long/short credit" investing strategies. Utilizing a "long/short credit" strategy in today's world serves to augment and complement any fixed income portfolio, let alone serve as an important core holding for equity minded investors. It is not by accident that as Investment Managers, we maintain exposures across the municipal bond, corporate bond, high yield, preferred, and US Treasury markets. We particularly note that our mutual fund product, Cedar Ridge Unconstrained Credit Fund (the "Fund"), has performed quite well this year, and throughout the month, as the various markets went through their daily "ebb and flow", based on any number of daily market data sets. Notably, over the Friday, June 24 and Monday, June 27 trading days, despite all the market volatility, the Fund registered a flat day on Friday and a down a penny on Monday. At June 30, the Fund performance year to date is a positive and the Fund paid a dividend of on June 30. (See page 6 for specifics.)

While the Fund maintained an overweight long position in municipal bonds throughout Q1 and Q2, we have managed the portfolio on a "defensive" basis. For readers, our concerns with the macro economic landscape were well known; when combined with the specifics of potential Euro Area contagion, and US domestic policy dysfunction, we have tended to utilize less leverage, opted for liquidity over yield, and maintained an overall shorter duration for the portfolio. By managing the portfolio on this basis, we have been able to run a "less hedged" book, reducing our volatility and relying on our short corporate bond positions rather than our typical rates hedging through short exposure to the US Treasury market.

We should emphasize that despite calls to the contrary, we will continue to run short positions in our fund portfolios. We are not long-only managers. And given the low overall level of interest rates, there remains a likelihood that rates will trend higher over time, rather than continuing to move lower. We expect to modify hedge ratios on a dynamic basis and we are prepared to endure the costs associated with our "long/short credit" strategy despite the fact in the current environment it seems that rates may never rise again! Throughout our history we have navigated periods of rising rates quite effectively, and particularly out-performed long-only managers during such periods. It

does get maddening at times to hold short positions, but our convictions are that the Federal Reserve will not ultimately get it exactly right and any number of events could also cause rates to move higher; at any time.

According to Barclay's, year-to-date through June 30, the Municipal Bond Index returned 4.33%; the High Yield Municipal Bond Index returned 7.98%; the US Credit Index returned 7.54%; the Aggregate Index returned 5.31%; and the US High Yield Corporate Index returned 9.06%.

Fixed Income Market Commentary- Municipal Market Comment. June new issue volume soared to the highest level in eight years, up 9% to $43.92 billion. The 30-Year Municipal Market Data Index (MMD Index) ended June at 2.02% (down from 2.82% to start the year). We note that since municipal bonds enjoy tax-exempt status, historically the "Municipal/ US Treasury" ratio in 30 years has averaged about 86%, although the ratio has remained elevated over the recent past. At last week's close, the 30-year Municipal/ US Treasury ratio stood at about 88.20%, down from 93.37% at year-end 2015. The ratio touched 86% on Friday, June 24.

We started the year by observing that the municipal bond market appeared to be in very good shape. Technical factors were particularly favorable throughout Q1 and Q2 for the municipal bond market. On the demand side, we have had January 1 and June 1 coupon interest payments and bond redemptions, coupled with continuing positive inflows for 39 consecutive weeks into municipal bond funds aggregating $33.0 billion through the week ended June 29. In addition, anecdotal evidence has shown significant new buying interest from both Asian and European investors as a result of "negative interest rates" in many host countries, with such flows not being counted in the weekly inflows statistics. On the supply side, we had assumed a static to slightly increasing rate environment and in turn projected the new issue volume for 2016 would fall at the lower end of the range of $290 to $360 billion. With rates actually falling throughout the year, the refunding volume has picked up as municipalities have sought to reduce their debt service costs on outstanding obligations. First half new issue volume aggregated $218.54 billion. While it now appears that 2016 new issue volume will likely fall at the higher end of the range, we note that the end result may still provide a "net negative issuance year" (i.e. the total amount of new bonds sold is less than maturing principal and debt refunding). We will continue to pay close attention to municipal flows and new issue volume during the remainder of the year as a sign of continuing positive technical factors for the sector. From a fundamental perspective, municipal credits as a whole are improving, as tax collections continue to rise and cost cutting measures remain in focus.

In addition, the US Congress followed through on its promise to pass legislation to provide The Commonwealth of Puerto Rico with a process to undertake some form of debt restructuring of its outstanding indebtedness and institute a moratorium on creditor litigation between December 2015 and the later of February 15, 2017 or potentially a different date. The legislation, known as PROMESA, brings into existence a federal oversight board to oversee the Commonwealth's budgetary, revenue and expense matters and provides a process for implementing debt relief through negotiations with bondholders. The negotiated transaction for restructuring of the debt of the Puerto Rico Electric Power Authority ("PREPA") that was affirmed earlier this year is not expected to be affected by the legislation or the federal oversight board. In addition, PREPA and the Ad-Hoc bondholder group reached agreement on extending the restructuring pact to December 2016, as well as arranging a new debt financing enabling PREPA to make its July 1 debt service payments. Moreover, the Puerto Rico Energy Commission approved a 3.10-cent per kw surcharge

last week that will be used as the new revenue source to repay PREPA's restructuring bonds. The Commonwealth's general obligation bonds, and the outstanding debt of PREPA, the Puerto Rico Aqueduct and Sewer Authority ("PRASA") and the senior indebtedness of the Sales Tax Authority ("Cofina") currently trade in the range of $64-$69. The negotiated restructuring for PREPA was set at a price of $85 on its outstanding bonds. We note that should the Commonwealth be successful in restructuring its outstanding indebtedness at an average price of about $85, it will recognize material debt service savings. In addition, significant total returns will be the result to bondholders that acquired outstanding debt of these entities at prices below $85.

Fixed Income Market Commentary- Corporate Credit Market Comment. With market prices for US Treasury securities moving higher as rates fell during the first half of the year, and in spite of spread volatility, the corporate credit markets had strong first half performance, with the Barclay US Aggregate and US High Yield Indices up 5.31% and 9.06% respectively.

Through the week ended June 29, year-to-date fund flows for US Investment Grade and US High Yield funds were $67.1 billion and ($5.1) billion, respectively. First half new issuance of investment grade corporate bonds was $688 billion, down 2% from the very robust levels of 2015. High Yield new issuance was $118 billion, down 34% from the first half of 2015. Recently credit spreads have remained range bound while avoiding the extreme highs and lows experienced during the first half of last year. However, given the rates rally, high grade yields are at or near all time lows, while high yield all-in rates are not far behind. Corporate default rates have begun rising, and at 5.0% are currently above the long term average of around 4.4%. At the same time, the distressed ratio has come down substantially from its peak of 31.6% earlier this year to 14.5% currently. Non-financial investment grade companies leverage of 2.9x is now above the 2009 cycle highs, and since 2014, companies have spent more cash on capital expenditure (capex), mergers and acquisitions (M&A), dividends and share buybacks than they have earned in operating cash flow. They have funded this shortfall at historically low all-in interest rates, and we fully expect this trend to continue and are therefore cautious on investment grade credit spreads. For US High Yield companies, average net leverage is consistent with mid-to-late cycle levels at 4.5x, and net interest coverage rates have deteriorated from 5.1x at their peak in April 2015 to 4.1x currently. Furthermore, this coverage ratio is being propped-up by historically low coupon rates. These ratios appear to be deteriorating from their peak, and we would expect continued degradation in credit trends moving forward, particularly with increased share buyback and M&A activity serving to "re-lever" corporate balance sheets. That said, net cash balances at the investor levels continue to be supportive of these markets.

We believe the corporate credit markets are exhibiting mid-to-late stage statistics and behavior. While this may continue for some time, we are positioning accordingly, continuing to identify long and short opportunities, run low net exposures, seek asset coverage and downside protection in our longs, and the opposite in our shorts, and find idiosyncratic and process-driven special situation investments that are less correlated with the broader markets.

Fixed Income Market Outlook. The global credit markets (as well as their equity brethren) remain volatile and continue to take guidance from prospects for continued significant governmental stimulus. On Friday, the Bank of England announced likely additional measures easing monetary policy as it deals with the fallout from the Brexit vote. We had outlined in our 2016 Outlook that for the first time since 1994, the Federal Reserve and ECB had settled on very different paths; with the Fed's December decision to start hiking interest rates, at the same time that

the EU had again cut its 2016 growth and inflation outlook along with renewed calls for more quantitative easing. The Federal Reserve had been poised to continue its program of raising rates just three weeks ago; we now face the prospect that any such rate hike may be off the table throughout 2017 and well into 2018. And the Fed maintains its policies of reinvesting maturing agency debt and agency mortgage-backed securities (MBS) in agency MBS and of rolling over maturing UST at auction, rather than seeking to reduce its balance sheet; therefore "qualitative easing" remains firmly in place. Rates are low world-wide, but that does not mean that fixed income opportunities cannot generate total returns; that's why we remain "long/short credit" managers.

We had also highlighted in our 2016 Outlook the impact of crude oil prices. At December 31, 2015, crude was trading at $37.04, down 65% from the $107.26 peak in June 2014, and had continued to drop a further 22% in the first three weeks of 2016, to below $29.00! The markets faced the prospect of Saudi Arabia's stated intentions on continuing to pump at lower prices, the dropping of sanctions against Iran and their stated intentions to be a prolific oil exporter, as well as the likelihood that domestic producers in the US would also continue pumping as they became more efficient and lowered costs. Taken at face value, we observed that there appeared to be a fair amount of "hysteria" and likely short selling associated with the oil markets. Had the oil "supply-demand" equation completely come unhinged, or were we witnessing the characteristics of a substantially oversold market? We did not trust that the "supply-demand" equation had completely become unhinged; and while an absence of consensus on production quotas by OPEC and the continued marginal non-OPEC production had placed even more pressure on the supply side, we observed we would not be surprised to see the $30.00 level hold as a market bottom, with the prospects for somewhat higher prices by mid-2016. As a point of reference, after posting the 2003 lows, oil prices rose substantially over the next four years to about $77 in August 2006. And what has happened? Demand destruction did not show up, and the projected supplies of crude oil somehow disappeared. At June 30, the price of crude oil closed at $48.33. The continued recovery in the price of crude oil will likely have a direct positive influence on the equity markets and may consequently have a negative impact on rates; while at the same time having a positive impact on credit spreads.

Summary. As always, we appreciate your confidence in us and continued participation in our investment programs. Please call us with any follow-up comments or questions or if you prefer, you may send e-mail to us at info@cedarridgepartners.com.

Sincerely,

CEDAR RIDGE PARTNERS, LLC

NOTICE TO INVESTORS IN OUR PRIVATE FUNDS

PLEASE CONTACT CEDAR RIDGE PARTNERS, LLC IF THERE ARE ANY CHANGES IN YOUR FINANCIAL SITUATION OR INVESTMENT OBJECTIVES WHICH MAY AFFECT YOUR STATUS AS A QUALIFIED INVESTOR. OUR CURRENT DISCLOSURE STATEMENT IS SET FORTH ON PART II OF FORM ADV AND IS AVAILABLE FOR YOUR REVIEW UPON REQUEST. THIS IS PROVIDED FOR INFORMATION PURPOSES ONLY AND IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO PURCHASE AN INTEREST IN ANY FUND. SUCH OFFER OR SOLICITATION WILL BE MADE TO QUALIFIED INVESTORS ONLY BY MEANS OF A FINAL OFFERING MEMORANDUM AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF INVESTMENT RESULTS OR AN INDICATOR OF FUTURE PERFORMANCE.

NOTICE TO MUTUAL FUND INVESTORS

The Fund paid a dividend of $0.06 per share on 6/30/2016.

TOTAL RETURN AS OF JUNE 30, 2016						EXPENSE RATIOS	
Share-Class	1 Month	3 Months	6 Months	1 Year	Life*	Cap	Gross
Institutional	2.35%	3.80%	4.86%	6.95%	5.82%	1.39%	3.84%
Investor	2.38%	3.83%	4.73%	6.70%	5.59%	1.64%	4.09%

** Since fund inception on 12/12/2013; annualized*

Quoted performance is historical and does not guarantee future results. Current performance may be lower or higher. Call 855-550-5090 for the most recent month-end returns. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Quoted performance is total return and does not reflect a 1% fee applied to shares redeemed within 30 days of purchase. Returns would have been lower without an expense limitation agreement in effect.

The Fund's expense caps reflect an expense limitation agreement in effect until April 1, 2017, and excludes taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, and acquired fund fees and expenses. With those expenses included, the Fund's net expense ratios are 3.48% and 3.73%, respectively. Cedar Ridge Partners may seek reimbursement from the Fund, subject to certain limitations, of waived fees or reimburse expenses up to three years from the date of the waiver or payment.

Mutual fund investing involves risk, including possible loss of principal. Credit-related instruments typically decrease in value when interest rates increase. Concentration in a small number of issuers increases the risk that one issuer could have a large adverse impact on the Fund's return. Borrowing and frequent trading could increase the Fund's operating expenses. High-yield bonds involve greater risk of default, and may be more volatile and less liquid, than investment grade securities. Subordinated and unsecured loans may be disproportionately affected by default and downgrade. Foreign investments may be adversely affected by currency fluctuations, lower liquidity, lax regulation, and political instability. Derivatives can be highly illiquid and difficult to unwind. The Fund's short positions may equal up to 100% of the Fund's net asset value. Short sales theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase.

Consider the investment objectives, risks, charges, and expenses of the Cedar Ridge Unconstrained Credit Fund carefully before investing. A prospectus with this and other information about the Fund can be obtained by calling toll free at 1-855-550-5090 or by visiting our website. . Read it carefully before investing.

Shares of the Cedar Ridge Unconstrained Credit Fund are distributed by IMST Distributors, LLC, Portland, Maine.