An Intriguing Alternative

River Canyon Total Return Bond is backed by hedge fund expertise.

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Even within the wide-ranging multisector bond Morningstar Category—where funds typically invest between 35% and 65% of assets in non-investment-grade debt—River Canyon Total Return Bond RCTIX stands out. This strategy merits a closer look to understand its value proposition.

Lead manager Sam Reid says the fund's distinctive approach is driven by rigorous security selection that leverages the alternative-credit capabilities of River Canyon's parent company, Canyon Partners, LLC. Although not a household name, the firm is well known across institutional and ultra-high-net-worth investors as a deep-value manager able to navigate complex situations for its hedge funds and longer-term locked-up vehicles. While only institutions and high-net-worth individuals qualify for these vehicles, the mutual fund debuted in 2014 to provide registered investment advisors and retail investors access to that same expertise and alternatives pedigree.

When Reid joined the firm approximately 15 years ago, part of the appeal was the investing philosophy of Josh Friedman and Mitch Julis, who co-founded the firm in 1990. He lauds their intense focus on underwriting credit and diligent bottom-up research, and their intelligence and collaboration.

"Josh is acutely a really good credit underwriter," Reid says. "He understands risk really well, and Mitch is a larger sort of systems thinker. Having co-founders that complement each other in that regard is just an incredible asset for us to have and informs the way we make decisions."

This fund applies those strengths to a portfolio with a duration that tends to range between 2.5 and 3.5 years. "We believe that process drives outcomes," Reid says. "We're disciplined. We tend to focus on higher-quality, shorterduration securities where we have a really good grasp on the range of outcomes."

Forging a Path in an Entrepreneurial Culture

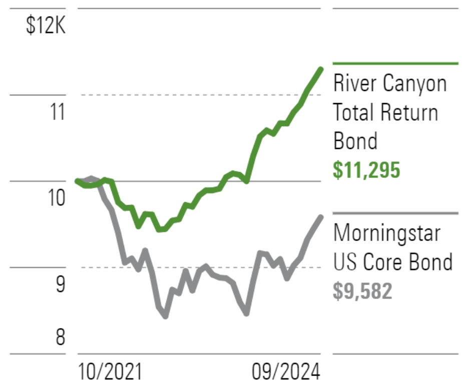
After graduating from Georgetown University in 2001 with a bachelor's degree in international business and finance, Reid joined JPMorgan Chase, where he spent the next seven years in structured credit sales and high-yield trading. In 2008, Reid left this sell-side Wall Street job for the slower pace of buy-side high-yield trading at Canyon Partners, then based in Los Angeles.

"The firm had this amazing reputation for being thoughtful, excellent credit underwriters and long-term investors," Reid says. He embraced Canyon's investing style and culture: "They just have a really high bar for quality of work and integrity, which permeates the entire institution."

When Canyon relocated its headquarters to Dallas in 2020 during a global pandemic, Reid made the move, too, although he laments that he can't surf in the middle of Texas. Playing pickleball with his wife or being in the gym are ways Reid brings balance to a busy work life, and spending time with his family is a priority. "That's really important to me. It's a wonderful escape," he says.

River Canyon Total Return Bond Instl
RCTIX

Growth of $10K



Morningstar Category	Multisector Bond
Morningstar Rating	★★★★★
Expense Ratio (%)	0.69%

Source: Morningstar Direct. Data as of Sept. 30, 2024.

In 2022, the bond market's worst year since modern benchmarking began, River Canyon Total Return Bond's prior manager left. Reid's trading background made him the right choice to take over.

"It felt like a very natural progression to me," he says. "I was already looking at and trading credit positions across all our books. I had worked closely with a lot of these analysts for over a decade. I had a good grasp of how to leverage the strengths of our institution and what we do well, and I had a good grasp of the liquidity, risk, and return of the securities we invest in."

Fixed-income markets are inefficient, but even more so in some of the lesser-trafficked and more complex parts of the market. "You have these vast number of participants in today's fixed-income marketplace," Reid says. "You have banks, hedge funds, mutual funds, insurance companies, private credit, collateralizedloan obligations, etc., and that specialization is great in tailoring risk. But it also means that there are these gaps and cracks that exist in the structure of the market, and we really take advantage of that."

For example, inefficiencies between the corporate and securitized markets can create opportunities to buy mispriced securities.

The environment at Canyon gives Reid the latitude to do so. "Mitch and Josh really are these incredible stewards of maintaining a culture that values intelligence, creative risk-taking, and collaboration," Reid says. "And it still feels very much like a family."

This entrepreneurial culture means that there are "no sacred cows," Reid says. "If you see an opportunity and you present the value proposition, the leadership team here will sponsor it. There's little bureaucracy in terms of new products or directions."

Teamwork, From the Bottom Up

While Reid takes the lead on the fund, he draws on the expertise and experience of his two comanagers. Canyon CIO Todd Lemkin, who started on the fund at the same time, is especially influential, Reid says: "He's plugged into every nook and cranny of our institution in a way that's more entrenched than even I am. He has an amazing sense for investments generally and the risk/reward. He sees every company under the sun in some form." Adam Rizkalla, who focuses on the firm's structured credit business, joined the team in 2023.

Reid also leverages what he calls a "really deep talent pool" at Canyon. While this is still a small firm compared with better-known bond shops, it has more than 200 employees, including about 70 investment professionals. He values the long-term personal relationships he's built at the firm and believes they make him a better investor.

"I've grown up with them here in 15 years, and I know what they're good at," he says. "I know where their blind spots are, and that's not to take away from the fact [that] I think they're all fantastic. I think every person herehas this unique superpower and an area of expertise."

In keeping with Canyon Partners' reputation as a deep-value investor, the team here relies on rigorous bottom-up security analysis to find mispriced securities among corporate bonds, bank loans, and securitized debt. These securitized assets feature prominently, with more than 55% in structured credit of asset- and mortgage-backed securities. This includes lesser-known structures in asset-backed securities of aircraft lending or litigation finance, for example, reperforming

Sam Reid, partner at Canyon Partners, LLC, and portfolio manager of the River Canyon Total Return Bond Fund.

and nonperforming loans, and collateralized loan obligations.

While these are publicly traded securities, the approach and even the terminology used are rooted in alternative investing, which takes a longer-term view. When Reid looks at an investment opportunity, he evaluates the investment's internal rate of return over its investment life. The fund has become a good outlet for investments that don't meet the return target for the firm's other vehicles, where return expectations, and the illiquidity premiums, tend to be much higher. For example, an investment that only expects a 10% IRR may not offer enough return potential for a hedge fund but may be a good risk/reward candidate for this mutual fund.

Reid sticks to a daily routine, but this type of investing is hardly that. Evaluating the previous day's performance, flow data, the fund's liquidity profile, and market updates consumes Reid's mornings. He normally spends afternoons underwriting credits and finding opportunities that offer good relative value.

These opportunities result in a fund that looks vastly different from its stated benchmark, the Bloomberg US Aggregate Bond Index, which allocates more than 70% to bonds backed by the US government. This strategy doesn't shy away from non-investment-grade debt. It had 56% of assets in junk-rated and nonrated paper as of August 2024, considerably more than the multisector category's 35% median, resulting in a yield advantage over most peers.

A Unique Value Proposition

Reid is also available to fundholders. He enjoys interacting with them and values relating to clients who can reach out to him directly, access that larger firms often don't offer. Reid says that investors use the fund in a variety of ways, but most find the appeal in its low correlation to traditional fixed-income asset classes and its unique exposure to parts of the market unavailable to the majority of investors. Reid calls it "an all-weather fixed-income fund."

David Miller, managing partner of Auctus Advisors, located in Charlotte, North Carolina, was familiar with Canyon's alternatives capabilities but discovered the lesser-known mutual fund offering at an industry conference. His due diligence led to an allocation for his firm's clients, who use it as part of their overall fixed-income allocation. Miller is a seasoned gatekeeper and appreciates Reid's trading background and ability to leverage Canyon's well-resourced alts platform for this nimbler multisector fund. "We looked for smart, robust managers who have access to all tools to make decisions of where to position on the curve and across the credit spectrum," Miller says.

This multisector offering is not without risk, though. During March 2020's pandemic-driven stress, the fund's 7.6% drawdown was more severe than funds with higher-quality core bond mandates; the Aggregate Index, for example, lost only 60basis points. But for investors who understand the complexities and performance contours of River Canyon's strategy, it can be a good complement to core fixed-income offerings. There seems to be no shortage of opportunities this strategy can take advantage of. The vast number of participants in fixed-income markets creates space to tailor risk.

Since the fund's first full month of performance in January 2015, its I shares' 5.5% annualized return through August 2024 was the best among distinct multisector bond peers and beat the Aggregate Index's 1.6% gain. Reid's shorter-term record on the fund is similarly strong. Since April 2022, the strategy's 5.8% annualized return through August 2024 was better than 90%of peers and ahead of the category median by about 240 basis points.

When adjusting for risk, the strategy also stands out; its Sharpe ratio, a measure of excess return to standard deviation, landed it in the category's top decile. The fund has also outperformed typical high-yield and bank-loan strategies, "and we've done it with less volatility than either of those asset classes," Reid adds. For instance, over the trailing five years, the fund's 5.2% annualized standard deviation was far less than the Bloomberg US Corporate High Yield Index's 9.3%.

With just less than $1 billion in assets, the fund isn't close to the size of the multisector behemoths like Pimco Income PIMIX, and it never will be. Reid says the strategy could grow to $5 billion to ensure that its size doesn't hinder execution and affect its ability to outperform.

Reid's competitive nature shows, whether it's playing pickleball several times per week or generating strong returns for investors. "Nothing motivates quite like winning," he says.

It is important to note that the Fund is not guaranteed by the U.S. Government. Fixed income investments involve interest rate risk, issuer credit risk and risk of default, and price volatility risk. Funds investing in bonds can lose their value as interest rates rise, and investors participating in such Funds can suffer a partial or total loss of their principal. The Fund invests in asset backed and mortgaged backed securities which may be more volatile than other fixed income securities and influenced by the housing markets or markets from which the collateral is drawn. For a more complete list of fund risks, please see the Prospectus.

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information are contained in the fund's prospectus, linked here, and statement of additional information, which may be obtained by contacting River Canyon or calling 1-800-245-0371. Please read these documents carefully before you invest or send money.

Performance periods ended 9-30-2024	QTD	YTD	1 yr.	3 yrs.	5 yrs.	S.I.
RCTIX net of fees (%)	**3.74**	**7.39**	**12.13**	**4.14**	**4.73**	**5.61**
Bloomberg US Aggregate Bond Index (%)	5.20	4.45	11.57	1.39	0.33	1.71

Gross Expense Ratio: 0.91%

The performance data quoted represents past performance and is not a guarantee of future results. 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. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance, please call 214-253-6600.

Morningstar Rating™ as of 31 October 2024 for the Inst. series; other classes may have different performance characteristics. The River Canyon Total Return Bond Fund was rated against the following numbers of Multisector Bond funds over the following time periods: Overall 5 Stars (325 funds rated); 3 Yrs. 5 Stars (325 funds rated); 5 Yrs.5 Stars (272 funds rated). Past performance is no guarantee of future results. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50%10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Past performance is no guarantee of future results.

Important Definitions:
Bloomberg US Aggregate Bond Index is broad-based benchmark that measures the investment grade, US dollar-denominated fixed rate taxable bond market and includes Treasuries, government related and corporate securities, fixed rate agency MBS, ABS, and CMBS.
Sharpe Ratio: A measurement of the portfolio's outperformance per unit of the portfolio's volatility.
Standard Deviation: A measure of the amount of variation of the values of a variable about its mean.
Basis Point: One hundredth of one percent.

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