AFA ALTERNATIVE FUND ADVISORS

Portfolio Review
Third Quarter 2021

AFA Multi-Manager Credit Fund

The third quarter of 2021 was an exciting time at Alternative Fund Advisors with the June 30 launch of the AFA Multi-Manager Credit Fund ("Fund"). After starting the quarter in cash, we methodically built out the portfolio over 60 days to become fully invested by September 1. We achieved this important milestone with the partnership of our investors, the multitude of people that have provided us guidance and ideas throughout our pre-launch phase, our business partners, and our sub-advisor Aon. To all these parties—and more—we owe a large debt of gratitude. Thank you.

In this inaugural quarterly letter, we offer a brief overview of the portfolio along with some highlights about the market opportunities we see on the horizon.

Returns

The institutional share class of the Fund returned 0.91% for the quarter and since its inception on June 30, 2021. This compares to .98% for the S&P LSTA Leveraged Loan Index and 0.89% for the Bloomberg High Yield Corporate Index. The allocation to the liquidity bucket averaged 36% over the quarter as we built out the portfolio. However, we ended the quarter at our target of 7% in cash and short-term investments.

Portfolio Breakdown

We divide our portfolio into three separate buckets: 1. Opportunistic Tradeable Strategies, 2. Specialty Finance Strategies, and 3. Stressed and Distressed Strategies. Here's a summary of each bucket and our current activity.

Opportunistic Tradeable Strategies

These types of strategies tend to invest in the less liquid aspects of the public markets such as structured credit, tradeable loans, convertible bonds, and high-yield bonds. We believe skilled managers can capitalize on various premia that exist in this market—most importantly the credit premium and complexity premium. Many larger asset managers are often limited in size or scope of capital they can commit in these markets, whereas other institutional buyers such as insurance companies and pension funds are buy-and-hold investors. This dynamic contributes to a potentially very attractive opportunity for more active management.

As of September 30, 2021, the Fund had three holdings in this bucket: Brigade Structured Credit Fund, Brigade Opportunistic Credit Fund, and Serone Multi-Strategy Credit Fund. Each of these holdings accounted for 10% of Fund assets (30% collectively). The managers of these strategies have demonstrated the ability to source assets with a yield advantage over most public market assets and add value through trading and relative value.

The performance data quoted represents past performance and is no 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. Total returns include reinvestment of distributions and are net of the Fund's net expenses. The Fund's gross expense ratio is 2.98%. Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high-yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. S&P LSTA US Leveraged Loan 100 Index is designed to reflect the performance of the 100 largest facilities in the leveraged loan market. Current performance for the most recent month end can be obtained by calling 800-452-6804.

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Specialty Finance Strategies

We view Specialty Finance as the anchor for the portfolio and intend to keep it the largest allocation in the current environment. These strategies tend to be niche lenders where the manager has a proprietary sourcing and structuring advantage, lending into markets that are less price sensitive. We believe these sourcing advantages provide yield opportunities that have a much more attractive risk and reward mix relative to the public markets. Examples of strategies in the Fund as of September 30 (or being evaluated as future additions) include real estate bridge lending, asset-based lending, litigation financing, and digital lending.

As of September 30, the Fund had three holdings in this bucket: CNH Finance LP preferred units, Alcova Capital Yield Premium Fund, and 1Sharpe Income Advantage Fund (representing 19%, 22%, and 22% respectively of Fund assets). All three strategies have carved out a defined sourcing advantage in their niche of the credit market and structured their loans in a manner that helps avoid losses in market downturns.

Stressed and Distressed Strategies

These strategies capitalize on the illiquidity and complexity of stressed and distressed lending. It can often take many months or even years to work through a distressed loan, which greatly limits the number of buyers in this market. It also takes a specialized skill set and significant experience to execute these strategies and extract value in these complicated situations.

As of September 30, the Fund did not have any exposure to stressed and distressed strategies. However, we are evaluating a number of strategies for potential Fund additions in the future. While the typical distressed corporate strategies appear unattractive given the broad health of the business community, we see compelling opportunities in niches of the market such as small balance loans, government-guaranteed mortgages, and industries still struggling in the COVID economy.

The State of the Private Credit Market

We often hear from investors that they are worried about valuations across markets. It’s hard to disagree with this assessment from our perspective. The ultra-low interest rate environment has pushed many investors, both institutions and individuals, further out on the risk curve. Investors have goals, and we imagine that the vast majority of those goals are not achievable holding 1.5%-yielding 10-year Treasury bonds to maturity.

The cycle is predictable but vicious: investors receive virtually no yield for their government bonds, so they switch into higher-yielding corporate bonds, which then brings down yields on those bonds. They then move into higher-yielding longer-dated corporate bonds, bringing down yields on that asset class. We see this process as akin to tossing a stone into a pond: the ripples start in the middle (the Treasury market) and cascade out to the edges until the whole pond has felt the effects of that one stone. While the private credit market has not been immune to this search for yield, we still believe it remains very attractive, especially relative to public markets.

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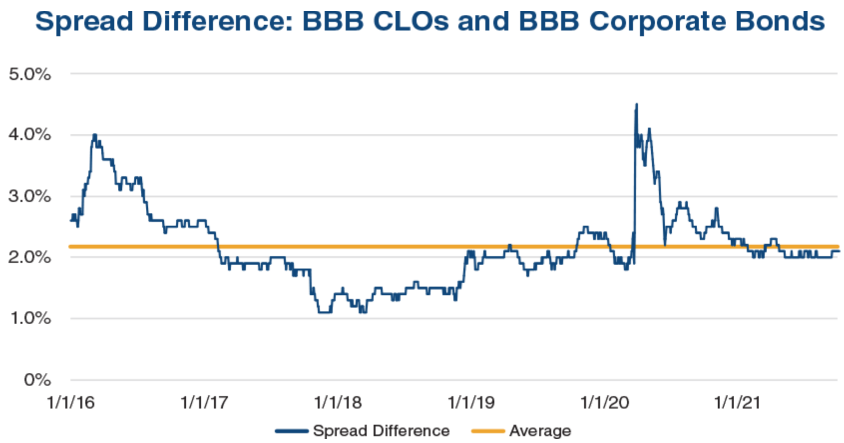
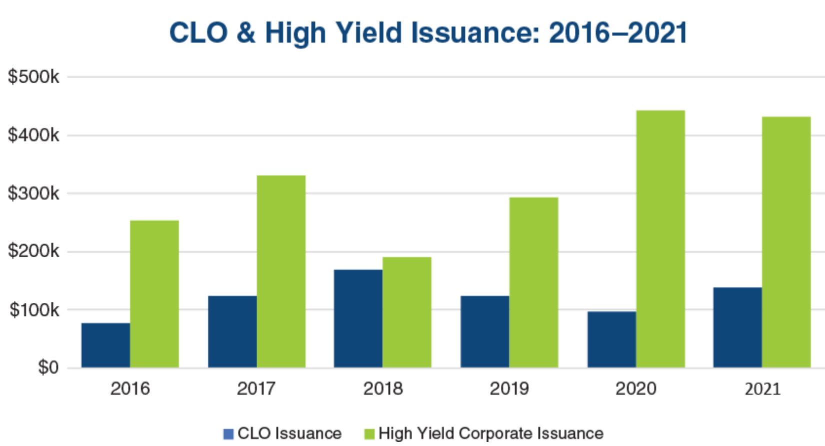


Source: Bloomberg, AFA Calculations. BBB Corporate Bonds = Option Adjusted Spread on the Bloomberg BAA Corporate Bond Index, BBB CLOs = Discount Margin on the BBB Rated Tranches in the Palmer Square CLO Debt Index. Data as of 9/30/2021.

One of our favorite metrics to track is the spread on CLOs (collateralized loan obligations) compared to the spread on similarly rated corporate bonds as a rough gauge of the attractiveness of private credit versus public credit. When CLO spreads are wide relative to their corporate bond equivalents, it suggests that investors are demanding a higher premium for illiquidity and complexity. Given the fact that corporate bond spreads are trading at their tightest levels since 2007, we anticipate investors to flock to these higher-yielding corners of the market. While CLO and other private credit issuance has increased, it has not been met with sufficient demand to erode the attractiveness relative to public markets. CLO issuance in 2020 and in 2021 year-to-date is about equal to average issuance in 2016 through 2019, whereas high-yield issuance is 50% higher than levels experienced in 2016 through 2019.



Source: Bloomberg, AFA Calculations. Data as of 9/30/2021

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Outlook for the Portfolio

We see attractive opportunities in the private credit market as we proceed into the fourth quarter of 2021. In a world of ultra-low interest rates, we believe the burden has shifted even more onto the asset management community to find pockets of the market where we can earn yield for clients in a risk-controlled manner. The size and breadth of the private credit market coupled with our multi-manager approach provide us an ideal spot to survey the markets and find the most compelling opportunities and managers. We anticipate deploying incoming capital into several new strategies over the coming quarter, particularly those with a significant illiquidity and sourcing premium, with yields well above the public markets. We look forward to a strong close to the year.

Disclosures

Investors should carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This information is included in the Fund Prospectus and can be accessed by calling 800-452-6804 or by email at info@alternativefundadvisors.com. Read the prospectus carefully before you invest.

An investment in the Fund involves a high degree of risk. An investment in the Fund should be viewed only as part of an overall investment program and you should invest only if you can sustain a complete loss of your principal. Please read the prospectus carefully. An investment in the Fund is subject to, among others, the following risks:

- The Fund is not intended as a complete investment program, but rather the Fund is designed to help investors diversify into private credit investments.
- The Fund is a "non-diversified" management investment company registered under the Investment Company Act of 1940.
- An investment in the Fund involves risk. The Fund is new with no significant operating history by which to evaluate its potential performance. There can be no assurance that the Fund's strategy will be successful.
- Shares of the Fund are not listed on any securities exchange and it is not anticipated that a secondary market for shares will develop.
- Shares are appropriate only for those investors who can tolerate a high degree of risk and do not require a liquid investment.
- There is no assurance that you will be able to tender your shares when or in the amount that you desire. Although the Fund will offer quarterly liquidity through a quarterly repurchase process, an investor may not be able to sell or otherwise liquidate all their shares tendered during a quarterly repurchase offer.
- The Fund's investment in private credit companies is speculative and involves a high degree of risk, including the risk associated with leverage.

The Fund has an interval fund structure pursuant to which the Fund, subject to applicable law, conducts quarterly repurchase offers for no less than 5% of the Fund's Shares outstanding at NAV. While the quarterly repurchase offer is expected to be 5%, the amount of each quarterly repurchase offer may be 5% to 25% subject to approval of the Board of Trustees (the "Board" and each of the trustees on the Board, a "Trustee"). It is also possible that a repurchase offer may be oversubscribed, with the result that shareholders may only be able to have a portion of their Shares repurchased. There is no assurance that you will be able to tender your Shares when or in the amount that you desire.

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