Investment Commentary

Second Quarter 2021

DPFNX | DPFAX | DPFCX

DEER PARK Total Return Credit Fund

The Deer Park Total Return Credit Fund Class I Shares (the "Fund") returned 2.24% in the Second Quarter of 2021 and has an annualized rate of return of 6.44% since the Fund's inception on October 16, 2015. The Fund made monthly distributions in April, May, and June of $0.045/share.

The Fund's distribution policy is to make quarterly distributions to shareholders. The level of quarterly distributions (including return of capital) is not fixed. However, this distribution policy is subject to change. Shareholders should not assume that the source of a distribution from the Fund is net profit. A portion of the distributions consist of a return of capital based on the character of the distributions received from the underlying holdings. The final determination of the source and tax characteristics of all distributions will be made after the end of the year. Shareholders should note that return of capital will reduce the tax basis of their shares and potentially increase the taxable gain, if any, upon disposition of their shares. There is no assurance that the Fund will continue to declare distributions or that they will continue at these rates.

	Q2 2021	One Year	Three Year	Five Year	Inception through 6/30/2021*
DPFNX Class I	2.24%	11.14%	3.61%	6.04%	6.44%
DPFAX Class A	2.18%	10.87%	3.36%	5.77%	6.17%
DPFAX Class A (Max Load)	-3.68%	4.54%	1.33%	4.53%	5.08%
DPFCX Class C	2.09%	10.17%	2.60%	-	4.00%
Bloomberg Barclays U.S. Aggregate	*1.83%*	-0.33%	5.34%	3.03%	3.40%

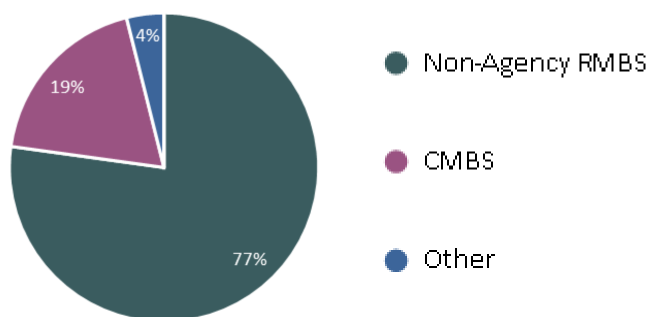
**Inception date is October 16, 2015 for Classes A and I, and April 6, 2017 for Class C.*

Returns for periods longer than one year are annualized.

The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. For performance information current to the most recent month-end, please call toll-free (888) 868-9501.

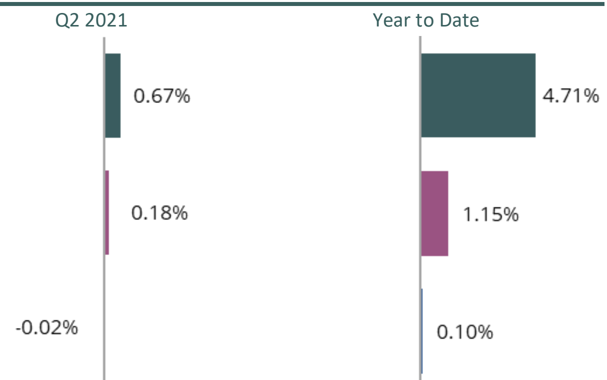
The Fund's total annual operating expenses are 2.41%, 3.16%, and 2.16% for the Class A, C, and I shares, respectively. The Fund's investment advisor has contractually agreed to waive management fees and to make payments to limit Fund expenses through at least January 31, 2022. After this fee waiver, the expense ratios are 2.18%, 2.93%, and 1.93% for the Class A, C, and I shares, respectively. These fee waivers and expense reimbursements are subject to possible recoupment from the Fund in future years. The maximum sales load for the Class A shares is 5.75%. A fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions.

Portfolio Composition (6/30/2021)



Portfolio composition is subject to change and should not be considered investment advice. Portfolio composition excludes cash and equivalents. Weights may not equal 100% due to rounding.

Attribution (6/30/2021)



The attribution data will not match the performance results of the Fund as it is an estimate and does not include Fund expenses, the results of residual cash balances and other timing considerations.

Market Update

The first half of the year has shown a number of positive trends at work. Highlighted by the ongoing shift in the U.S. economic growth outlook, the country has clearly entered into a "re-opening" phase of post pandemic activity. This has been visible in surging demand for travel, dining and other segments of the economy that were most severely impacted last year. With these positive trends in place, broader markets have been quick to respond and appear to be pricing in a long-term reversion to expansion with the Credit market performance through Q2 (spread tightening, Figure 1), while traditional bond indices have lagged the overall market performance through the first half of the year (Figure 2) as rates have risen across the longer end of the yield curve.

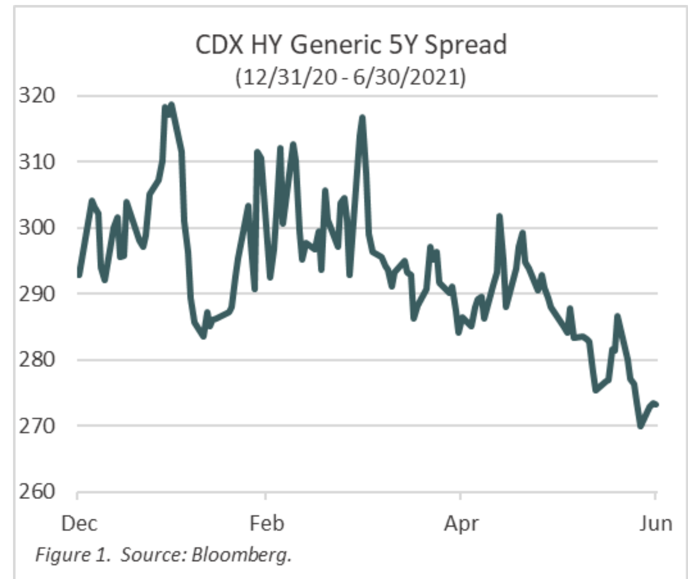


Figure 1. Source: Bloomberg.

The Fed has again hinted its intent to continue asset purchases of Treasury and MBS securities, however the tone of the communication led many to infer that they may begin paring these purchases before the end of the year. We feel this is more to gauge market sentiment of such move rather than an indicator of action. Additionally, economists surveyed by Bloomberg are now anticipating a potential first rate increase out in late 2022 or early 2023. Our view is that will occur later than this.

In the US housing market, the ongoing imbalance of supply and demand is expected to persist for the next several quarters, if not years. These positive underlying fundamentals continue to favorably impact the performance trends on our legacy RMBS book. Home price appreciation, translating to declining liquidations and losses, further supported by lower short term interest rates have boosted the pace of past loss recoveries which has been very beneficial to our positions; specifically, zero factor bonds.

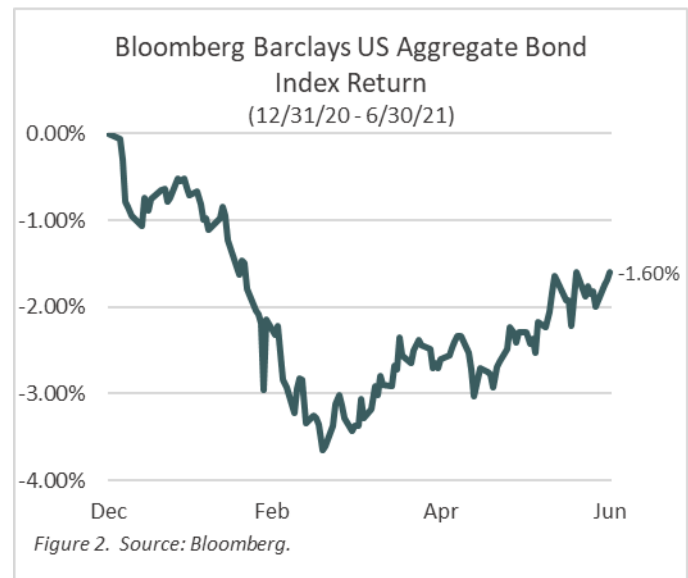


Figure 2. Source: Bloomberg.

We continue to be very enthusiastic of our portfolio positioning. We cannot overemphasize what we believe is the relative value of our positions versus other segments of Credit/Fixed Income Universe; particularly given the underlying fundamentals which we believe will ultimately bear out its intrinsic worth.

Performance Update

Performance during the Second Quarter 2021 continued to reflect the improving performance characteristics within the portfolio's Legacy Non-Agency RMBS holdings.

Structured Credit Sectors

Structured Credit positions held in the portfolio have produced consistent positive performance through the first six months of the year. These sectors have benefitted from the long-term trends in improving collateral performance and market demand, specifically within the Legacy Non-Agency RMBS segment, which has generated the largest portion of the Fund's returns.

Non-Agency RMBS

Legacy Non-Agency RMBS has continued to have strong performance, especially when compared to the broader Fixed Income market. This strong performance was primarily driven by accelerating home price appreciation, low interest/mortgage rates, increasing voluntary prepayments, and declining default rates as well as various forms of loss recoveries such as Principal Forbearance and Excess Interest. The impact of slower rates of liquidations/losses coupled with improving pace of voluntary prepayment rates has resulted in increased principal cash flows and overall outperformance for these seasoned mortgage-backed securities.

While the start of the Summer has seen some slowdown in trading volume, fundamental collateral performance has been consistently strong which has supported overall price levels for these legacy bonds. Meanwhile, lower short-term interest rates have resulted in improved Excess Interest resulting in higher credit support. As a result, the pace of loss recovery /write-backs have continued to exceed our base case expectations. Despite this temporary influence on trading volume, in general, June demonstrated strong demand for long duration bonds, and has resulted in improving price levels for many of these "write-back" mezzanine tranches (i.e. bonds subject to loss recoveries). Called deal activity continued the pace from prior months this year, with 14 deals totaling $1.6bn redeemed in June. Through the Second Quarter $22bn of deals have been called. Importantly, more Subprime deals were called in June than in all of the rest of the year. Of the deals called in June, the majority were Legacy (10 deals). Again, this reflects both the improving quality of these legacy loan pools as well as the economic incentive of the clean-up option. Lower financing costs and delinquency curing have also supported this trend. We believe these trends will continue and should provide ongoing upside optionality for our portfolio.

CMBS

The CMBS landscape has slowly been evolving over the past year. As we have noted on many occasions, the impact of the COVID crisis has had a uniquely adverse effect on many segments of the commercial market and we are just now seeing the results of loss mitigation efforts on performance in the broader CMBS market. In general, we continue to see downside risk for many deals that are backed by weaker collateral where market prices do not reflect the potential for significant property value declines and associated losses.

However, as we have seen in prior dislocations this shift in market performance can provide significant distressed buying opportunities. During the second quarter of 2020 we began selectively adding to our CMBS sector by targeting deals where we viewed market price levels were overly discounting loss expectations on relatively higher quality commercial assets.

U.S. Housing Market

The pace of U.S. home price appreciation has been a prominent facet of the Covid-19 pandemic and associated recovery. The unique transition to a "work-from-home" business focus in the midst of the shutdown accelerated the imbalance of supply and demand as existing homeowners have been reticent to put properties on the market

while the urban to suburban demand shift has increased the pace of demand. However, the idiosyncratic impact of this crisis has only been a further catalyst to broader market trend that has been occurring over the past several years. Specifically, the pace of new construction has lagged the existing demand created by new household formation as the Millennium generation has entered into its prime years of homeownership. This dynamic has been visible in the months' supply of existing single-family homes, which has been trending downward over the past several years (Figure 3). Again, the pace of demand has proven to be persistent as homes have recently been selling on average in ~25 days from listing, down from 50 days in 2019.

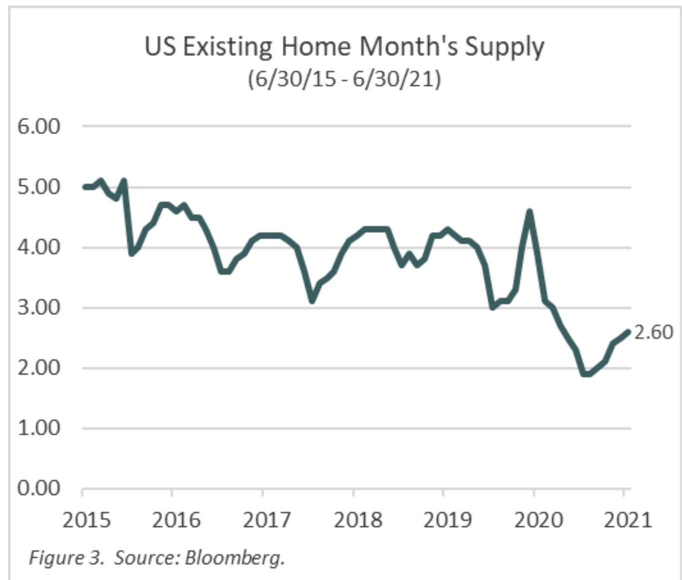


Figure 3. Source: Bloomberg.

Importantly, the knock-on effects of the crisis translated to a shortage of building materials as well as a constricted labor market which has been a further impediment to the pace of new construction. As the economy has shifted back to re-opening, the construction of new homes will accelerate, but given the extended lead time to add these properties to the market the supply/demand imbalance is expected to drive higher than normal HPI for the next year, or longer. As of the most recent reading, the National HPI continued to ramp up to 15% year-over-year, far exceeding the long-run average of 3-4% annualized appreciation (Figure 4).

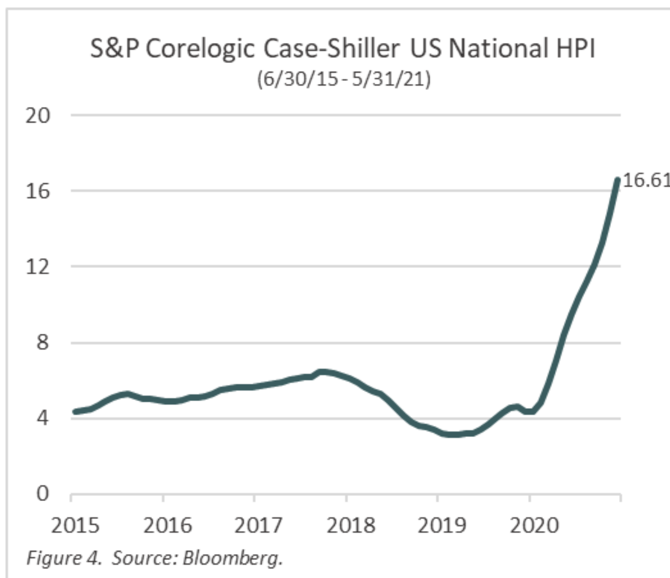


Figure 4. Source: Bloomberg.

As property values have increased so dramatically, we expect the effect of declining affordability will likely moderate the pace of future growth over the coming year. However, there does not appear to be any indication that this will lead to weakening property values, rather a normalization back toward mid- to low-single digit annualized appreciation. Again, the strength of the housing market has become one of the strongest growing segments of the U.S. economy during this reflationary phase of expansion. We see this trend continuing and view it as a primary driver behind the long-term outperformance of the Legacy Non-Agency RMBS sector.

Market Outlook & Inflation Considerations

The immediate impact of economic activity re-opening post pandemic, coupled with the extensive fiscal support has resulted in increasing price levels across a number of segments of the U.S. economy. In part this has been the result of the pandemic supply constraints, as production and distribution has been abruptly impacted, which has in turn translated to a supply constraint. Examples of this can be seen throughout various supply chain channels from

microchips, to lumber, to food distribution. As these constraints begin to recover it will take some time before the flow of goods reverts to pre-pandemic balance. But the question remains how much of this impact is transitory and how much ultimately remains more permanent.

Meanwhile, the labor market is demonstrating a more lagged response to the re-opening process. While recent jobs reports have shown signs of improvement the overall unemployment rate remains at an elevated level and indicates a diminishing rate of improvement. As of the most recent report the U.S. unemployment rate remains at just under 6%, a good deal above the pre-crisis level of sub- 4% (Figure 5). Importantly, some of this may be due to structural unemployment issues, as labor markets have demonstrated a reluctance of workers to be re-introduced to the labor market. Again, much of this may be temporary while some may be an indication of a longer-term trend. This labor dynamic is one of the reasons that the Fed appears to be reluctant to shift its stance toward reducing the various stimulus measures in place.

Figure 5. Source: Bloomberg.

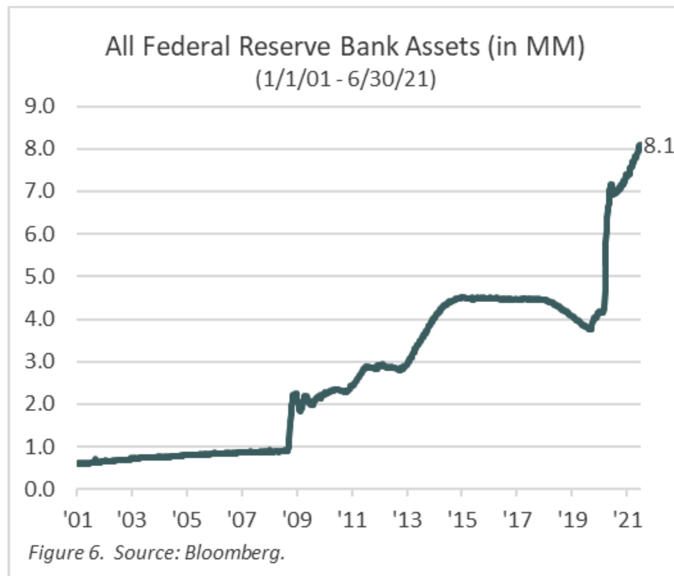


Figure 6. Source: Bloomberg.

In total, the amount of global stimulus has now reached an astounding approximately $30 trillion, while the U.S. balance sheet now exceeds $8 trillion (Figure 6). Despite this unprecedented level of expansion and now increasing indications of inflationary pressure, the recent communication from the Federal Reserve has been guiding toward a slow transition from the current asset purchase program in place which currently represents $120 billion in monthly acquisitions (consisting of U.S. Treasuries and Agency MBS). The current question is focused on "when is the Fed going to begin tapering and/or begin interest rate hikes?" as current expectations have slowly evolved over the past several quarters. We view the Fed's signaling on a taper as an attempt to garner market reaction of such a move, rather than an indication of such an action.

Additionally, while current consensus is that the first potential rate increase would occur sometime toward the end of 2022 or beginning of 2023, our posture is that it will be longer than the consensus view on such increases. Fund position management has been adjusted to account for the numerous uncertainties that are imbedded in these various inflation scenarios. Our positions continue to show improving performance trends associated with inflationary pressures and we are enthusiastic about the longer-term return potential from the holdings in the Fund.

There is no assurance these opinions or forecasts will come to pass and past performance is no assurance of future results.

Important Risk Disclosures:

Investors should carefully consider the investment objectives, risks, charges and expenses of the Deer Park Total Return Credit Fund. This and other important information about the Fund is contained in the Prospectus, which can be obtained by contacting your financial advisor, or by calling 1.888.868.9501. The Prospectus should be read carefully before investing. The Deer Park Total Return Credit Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Princeton Fund Advisors, LLC and Northern Lights Distributors are not affiliated.

Mutual Funds involve risk including the possible loss of principal. Long investing involves buying a security such as a stock, commodity or currency, with the expectation that the asset will rise in value. A hedge refers to making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. ***RMBS*** *(Residential Mortgage-Backed Securities) are a type of security whose cash flows come from residential debt such as mortgages, home-equity loans and subprime mortgages. RMBS focus on residential instead of commercial debt.* ***The Barclays Capital U.S. Aggregate Index*** *provides a measure of the performance of the U.S. investment grades bonds market.* ***The Case-Shiller National Home Price Index*** *seeks to measure changes in the total value of all existing single-family housing stock.*

ABS, RMBS and CMBS *are subject to credit risk because underlying loan borrowers may default. Additionally, these securities are subject to prepayment risk because the underlying loans held by the issuers may be paid off prior to maturity. The value of these securities may go down as a result of changes in prepayment rates on the underlying mortgages or loans. During periods of declining interest rates, prepayment rates usually increase and the Fund may have to reinvest prepayment proceeds at a lower interest rate. CMBS are less susceptible to this risk because underlying loans may have prepayment penalties or prepayment lock out periods. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. In addition, the credit quality of securities held by the Fund may be lowered if an issuer's financial condition changes.* ***Futures, options and swaps*** *involve risks possibly greater than the risks associated with investing directly in securities including leverage risk, tracking risk and counterparty default risk.*

Option positions *may expire worthless exposing the Fund to potentially significant losses. The value of the Fund's investments in fixed income securities will fluctuate with* ***changes in interest rates****. Typically, a rise in interest rates causes a decline in the value of fixed income securities.* ***Foreign investing*** *involves risks not typically associated with U.S. investments, including adverse fluctuations in foreign currency values, adverse political, social and economic developments, less liquidity, greater volatility, less developed or less efficient trading markets, political instability and differing auditing and legal standards. Investing in emerging markets imposes risks different from, or greater than, risks of investing in foreign developed countries.* ***Lower-quality*** *fixed income securities, known as "high yield" or "junk" bonds, present greater risk than bonds of higher quality, including an increased risk of default. An economic downturn or period of rising interest rates could adversely affect the market for these bonds and reduce the Fund's ability to sell its bonds. The lack of a liquid market for these bonds could decrease the Fund's share price. Repayment of defaulted securities and obligations of distressed issuers (including insolvent issuers or issuers in payment or covenant default, in workout or restructuring or in bankruptcy or in solvency proceedings) is subject to significant uncertainties. Investments in defaulted securities and obligations of distressed issuers are considered speculative as are junk bonds in general.*

The value of a specific security *can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than those of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.* ***Liquidity risk*** *exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations.* ***The advisor's and sub-advisors' judgments*** *about the attractiveness, value and potential appreciation of particular asset classes and securities in which the Fund invests (long or short) may prove to be incorrect and may not produce the desired results. Additionally, the advisor's judgments about the potential performance of the sub-advisors may also prove incorrect and may not produce the desired results.*

Overall equity and fixed income securities *and derivatives market risks may affect the value of individual instruments in which the Fund invests. Factors such as domestic and foreign economic growth and market conditions, interest rate levels, and political events affect the securities and derivatives markets. When the value of the Fund's investments goes down, your investment in the Fund decreases in value and you could lose money. The Fund will incur a loss as a result of a short position if the price of the short position instrument increases in value between the date of the short position sale and the date on which the Fund purchases an offsetting position. Short positions may be considered speculative transactions and involve special risks, including greater reliance on the ability to accurately anticipate the future value of a security or instrument. Underlying funds are subject to investment advisory and other expenses, which will be indirectly paid by the Fund. As a result, the cost of investing in the Fund will be higher than the cost of investing directly in an underlying Fund and may be higher than other mutual funds that invest directly in stocks and bonds. Underlying Funds are subject to specific risks, depending on the nature of the fund.*

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