AAM/Phocas Real Estate Fund Commentary

APRAX • APRIX

Fourth Quarter 2023

The following commentary is from Phocas Financial, the sub-advisor to the Fund and the “we” throughout the commentary.

MARKET SUMMARY

The securitized commercial real estate market, as measured by the S&P US REIT Index (the “Index” or the “Benchmark”) posted total performance of 16.04% for the fourth quarter. The massive upswing in Real Estate Investment Trust (REIT) share prices since late October coincided with an equally material decline in the yield of the 10-year Treasury Bond. Additionally, the Federal Reserve’s (Fed) decision at its December Federal Open Market Committee (FOMC) meeting to contemplate three rate cuts in 2024 changes the landscape for REITs, because the potential for declining rates is a big positive for real estate. While the potential for lower rates doesn’t impact fundamentals, lower rates would improve asset values by easing the cost of financing and could foster the transaction market. Could 2024 be the year that bid-ask spreads finally tighten and support a medium flow of transactions? Possibly. If that were to occur, the transactions could help provide actual data for asset valuations across markets.

We continue to believe the market’s fears of real estate loans being coughed up on the streets are overblown as the Global Financial Crisis’s (GFC) experience managing through the 2004-2007 peak Commercial Mortgage-backed Securities (CMBS) deals showed. Most loans may likely be worked out by borrowers and lenders, as taking back properties is only seen as a last resort. Further, assets that must be re-traded this way are more likely to require bigger modifications and impairments than simply working with the existing borrowers. That said, there may be uneconomic assets whose keys will be returned to the lenders.

We believe the market has yet to grasp the magnitude of the current supply-demand situation fully. The aggregate impact of tighter lending standards, construction costs, entitlement processes, land prices, and necessary rents combine to make development math difficult. While developments continue to be completed, starts have slowed and may impact 2024 and beyond.

PERFORMANCE SUMMARY

The AAM/Phocas Real Estate Fund (the “Fund”) underperformed the Index for the quarter, primarily driven by overweight in Apartments and underweight in Infrastructure. Any cash weight during this rally was a major drag on active Fund relative returns. Contributing performance factors, though, included select positions in Healthcare, Lodging, Shopping Centers, and Self-Storage, and Diversified.

CONTRIBUTORS

Simon Property Group (SPG) was the top performer in the quarter. Simply put, the company reported better than expected third quarter numbers and increased full year 2023 guidance above consensus. Like SPG, American Tower (AMT) had an excellent third quarter earnings report and increased its full year sales and profit guidance. Ryman Hospitality (RHP) outperformed peers due to its reporting in its group segment as well as the competitive advantages of its hotel and entertainment properties.

DETRACTORS

After being a top performer in the third quarter, Omega Healthcare Investors (OHI) was the worst performer in the fourth quarter in the Fund. OHI reported disappointing Funds From Operations (FFO) in the third quarter and the company was the recipient of several sell side analyst downgrades. On the bright side, the dividend remains well covered, and the company took to the transaction market selling 29 assets in Florida to stabilize their balance sheet further. Despite reporting better than expected quarterly results, Centerspace (CSR) underperformed because investors were more concerned about CSR’s

Standardized Performance as of 12/31/23 (%)

Class	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (9/30/06)	Expense Ratios (net / gross)
Class A - APRAX	17.59	9.60	9.60	3.36	7.35	7.30	5.98	1.15 / 1.68
With sales charge[1]	11.14	3.57	3.57	1.43	6.14	6.69	5.63	
Class I - APRIX	17.61	9.87	9.87	3.55	7.55	7.41	6.04	0.90 / 1.43
S&P US REIT Index	16.04	13.77	13.77	7.17	7.22	7.50	5.47	

The Fund commenced operations and acquired the assets and liabilities of the Phocas Real Estate Fund (the “Predecessor Fund”), a series of Forum Funds II, on August 23, 2018. As a result of the acquisition, the Fund is the accounting successor of the Predecessor Fund. Performance results reflect the performance of the Predecessor Fund. The Fund’s past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.

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 information quoted. To obtain performance information current to the most recent month-end, please call 1-888-966-9661.

[1]Sales charge for Class A: 5.50%

The Fund’s advisor has contractually agreed to waive certain fees/expenses until April 30, 2033 and may recoup previously waived expenses that it assumed during the previous three-year period.

Performance returns for periods longer than one year are annualized. Redemption fee if redeemed within 90 days of purchase: 2.00%.

asset disposition program slowing cash flow growth than redistribution of their portfolio into faster growing markets with the risks of the transaction markets deteriorating.

FUND POSITIONING

Looking forward, our analysis of current construction levels and the tougher lending environment for development projects suggests a favorable supply / demand outlook, which we believe could drive occupancy in many sectors higher in 2024.

Retail REITs are expected to continue to report robust leasing and improving pricing power given miniscule new supply. The consumer, however, is slowing with higher leverage and increasing delinquencies. As such, we maintain our focus on higher demographic shopping centers and our preference for shopping centers over Regional Malls. Open air centers continue to see Pandemic tailwinds from increased homeownership and vitality of the suburbs. Urban brands are continuing their push into shopping centers, while traditional tenants are seeking more stores as well as “upping their game” to meet consumer tastes.

Like Retail, the Industrial sector may have favorable supply demand dynamics for landlords. To be clear, our preference is for industrial assets with infill locations, helping to avoid the supply pressures. Also, as Industrial leases expire, landlords may be able to capture positive mark-to-market on new leases. Additionally, most Industrial owners may now be in a good position to refinance any debt as these properties generally tend to be well leased and asking rents remain healthy.

The rally in office in 2H23 was sparked by SL Green Realty Corp’s (SLG) 245 Park Avenue Joint Venture (JV) trade in the summer. Based on the murky outlook for office fundamentals, we expect most REIT dedicated investors to underweight or even avoid office stocks completely for the next few years, as it was with the experience with mall REITs. Long-term investors, however, could find the Office sector attractive given the significant volatility. Hedge funds are likely to continue to express their views, and current office short interest, while high, could rise further, given the experience of the mall sector during the Retail Armageddon. We believe many office REITs could be viewed as value traps, as office values and rents drift lower. As a result, we remain underweight in traditional office assets, but with an eye for opportunity.

For more information on the AAM/Phocas Real Estate Fund, please contact a financial professional.

The forecasts, opinions and estimates expressed in this report constitute Phocas Financial’s judgment as of December 31, 2023 and are subject to change without notice based on market, economic and other conditions. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Phocas Financial does not accept any liability for losses either direct or consequential caused by the use of this information.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund’s prospectus and summary prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund’s prospectus and summary prospectus by calling 888.966.9661.

Risks: An investment in the Fund is subject to risks and you could lose money on your investment in the Fund. The principal risks of investing in the Fund include, but are not limited to, investing in foreign securities, including emerging markets; investing in micro-, small and mid-cap companies; investing in real estate and real estate investment trusts (REITs); and non-diversification risk. The prices of foreign securities may be more volatile than the securities of U.S. issuers because of economic conditions abroad, political developments, and changes in the regulatory environment of foreign countries; these risks are more pronounced for investments in issuers in developing or emerging market countries. Investments in micro-, small- and mid-cap companies involve greater risks including increased price volatility compared to the market or larger companies. Investment in securities of a limited number of issuers (non-diversified) exposes the Fund to greater market risk and potential losses than if its assets were diversified among the securities of a greater number of issuers. Because the fund concentrates its net assets in real estate industry (by investing in REITs and other companies that invest in real estate assets), it is particularly vulnerable to the risks of the real estate industry. Declines in real estate values, changes in interest rates, economic downturns, overbuilding and changes in zoning laws and government regulations can have a significant negative effect on companies in the real estate industry. More information about these risks may be found in the Fund’s prospectus.

DEFINITIONS: A **capital expenditure**, or capex, is the purchase of long-term physical or fixed assets used in a business’s operations. **Earnings growth** is the change in a company’s reported earnings over a period of time, usually calculated as a period-to-period comparison, such as from quarter-to-quarter, year-to-year, or the current quarter’s results to those of the same quarter last year (year-over-year). **S&P US REIT Index** is a free-float adjusted, market capitalization-weighted index that defines and measures the investable universe of publicly-traded real estate investment trusts domiciled in the United States. It is not possible to invest directly in an index.

Top ten holdings does not include cash allocation. As of 12/31/23, the top ten holdings in the AAM/Phocas Real Estate Fund were:

	Name	(%)
1.	Prologis Inc	7.57
2.	Equinix Inc	7.26
3.	American Tower Corp	6.87
4.	Simon Property Group Inc	5.97
5.	Rexford Industrial Realty Inc	5.79

	Name	(%)
6.	Invitation Homes Inc	4.91
7.	Extra Space Storage Inc	4.79
8.	Public Storage	4.53
9.	Centerspace	4.16
10.	Global Medical REIT Inc	4.02

Portfolio holdings will change due to ongoing management of the Fund. References to specific securities or sectors should not be construed as recommendations by the Fund, the Advisor or the Distributor.

Not FDIC Insured. No Bank Guarantee. May Lose Value.