Palmer Square Opportunistic Income Fund (PSOIX)

October 2021

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Fund Refresher

As a refresher, the Palmer Square Opportunistic Income Fund ("PSOIX" or the "Fund") seeks to not only capture a high level of current income, but also long-term capital appreciation by investing with a flexible mandate to find the best relative value opportunities across corporate credit and structured credit.

Performance Summary

The Fund returned 1.15% (net of fees) for the third quarter of 2021, driven by the strong rally in Collateralized Loan Obligation ("CLO") debt as well as corporate bonds and bank loans.

Fund Performance Net of Fees as of 9/30/2021 (inception 8/29/2014*)

	Q3 2021	YTD 2021	2020	2019	2018	2017	2016	2015	2014*
PSOIX	1.15%	5.94%	5.92%	7.59%	-0.47%	11.04%	12.10%	-5.32%	-0.76%

	1 Year	3 Years	5 Years	Since Inception Annualized
PSOIX	14.05%	5.28%	6.82%	4.92%

Annual Expense Ratio: Gross/Net 1.69%/1.69%. The Fund's advisor has contractually agreed to waive or reduce its management fees and/or reimburse expenses of the Fund to ensure that total annual Fund operating expenses (excluding taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, acquired fund fees and expenses, expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation expenses) do not exceed 1.50% of the Fund's average daily net assets. This agreement is in effect until December 1, 2021, and it may be terminated before that date only by the Fund's Board of Trustees. The Fund's advisor is permitted to seek reimbursement from the Fund, subject to certain limitations, of fees waived or payments made to the Fund for a period ending three full fiscal years after the date of the waiver or payment. **The performance data quoted represents past performance and that past performance does not guarantee future results. Investment return and principal value 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 866-933-9033.**

Portfolio Snapshot

Please refer to the table below for a portfolio snapshot by quarter.

	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021
Interest Rate Duration*	0.70 yrs	0.44 yrs	0.52 yrs	0.48 yrs	0.49 yrs
Spread Duration*	3.77 yrs	3.31 yrs	2.49 yrs	2.22 yrs	2.31 yrs
Credit Spread	748	647	565	546	585
Weighted Average Price	$93.06	$97.70	$98.13	$98.19	$98.06
Yield to Expected Call*	7.85%	6.82%	6.08%	5.95%	6.33%
Yield to Maturity	7.40%	6.78%	6.52%	6.49%	7.15%
Current Yield	6.40%	6.16%	5.64%	5.66%	6.17%
Beta vs. S&P 500	0.55	0.53	0.52	0.51	0.51
Beta vs. Bloomberg Barclays U.S. Aggregate Bond Index	0.34	0.38	0.33	0.33	0.32

Past performance does not guarantee future results. *Please see Notes and Disclosure for definitions.

Allocation / Attribution Summary

	9/30/2020 Allocation	12/31/2020 Allocation	3/31/2021 Allocation	6/30/2021 Allocation	9/30/2021 Allocation	Q2 2021 Gross Attribution
CLO Debt	72%	72%	72%	71%	73%	1.10%
Bank Loans	10%	13%	14%	12%	11%	0.17%
High Yield Credit	12%	7%	7%	4%	5%	0.15%
Sub Notes	4%	3%	1%	3%	7%	0.40%
ABS/MBS	0%	2%	3%	3%	3%	0.08%
IG Corp Debt	1%	0%	0%	0%	1%	0.00%

Please note the allocation above is on a gross exposure basis as a percent of NAV and does not include cash and/or hedges. Gross attribution does not include hedges, expenses and fees if applicable. Investment return and principal value 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. Attribution refers to the process of measuring returns generated by various sources.

YTD Issuance Remains Elevated

- While demand has certainly increased significantly, supply has also been elevated. Why? With the majority of the CLO market now out of its non-call period and AAAs near multi-year tights*, a large portion of the market was in the money for a refi or reset (tighter spreads means older deals can refinance their debt tranches at more attractive levels than they were originally priced). Coupled with a strong new issue market, CLO gross issuance has already exceeded 2018 levels, which was previously the post crisis record. YTD gross issuance is about $327bn ($133bn new issue, $106bn reset, $88bn refi). We expect this trend to continue for the remainder of the year as most deals issued in Q3/Q4 2020 are exiting their 1 year non-calls in the next 3-6 months. The record setting supply led spreads to be mostly range bound, with AAAs 5-10bps wider* than their early February tights. Mezzanine is also wider than the February tights. BBBs are currently in the 300-350bps range and BBs are 625-650bps for higher quality deals. **We view this as a significant buying opportunity and very attractive versus other areas of corporate and structured credit.**

Relative Value and Current Upside potential

- We see a lot of value in CLO debt at current levels, as spreads are wider from their YTD tights in early February. In comparison, almost all other areas of corporate credit are near all time tights. If CLO debt levels return to their average post crisis spreads, total return potential is still very attractive. Please see the table below highlighting current price/spreads and potential upside from current levels. Yield to expected illustrates yields if spreads were to stay the same and the bonds pull to par by maturity.

CURRENT SPREAD AND YIELD LEVELS

Rating	Current Avg Price	Discount Margin	Yield to Expected
CLO AAA	$100.05	102	1.44%
CLO AA	$99.97	153	2.11%
CLO A	$99.70	202	2.73%
CLO BBB	$99.09	317	3.96%
CLO BB	$97.63	657	7.57%

Source: Intex / Palmer Square. Below investment grade ratings are subject to higher risks. Figures shown are not indicative of the performance of the Fund.

*Please see Notes and Disclosure for definitions.

- CLO BBs remain a significant allocation in the portfolio, and at current valuations offer a lot of potential value on an absolute and relative basis. As compared to High Yield (HY) opportunities, CLO BBs on a historical basis still look very cheap. CLO BBs currently pick up 368bps of spread versus HY, which looking back to 2012 is a 90th percentile reading (meaning CLO BBs have been relatively cheaper only 10% of the time). The median spread differential over the same time period is 227bps, which means CLO BBs need to tighten about 140bps just to get back to historical average levels vs HY.

CLO BB vs HY Spreads

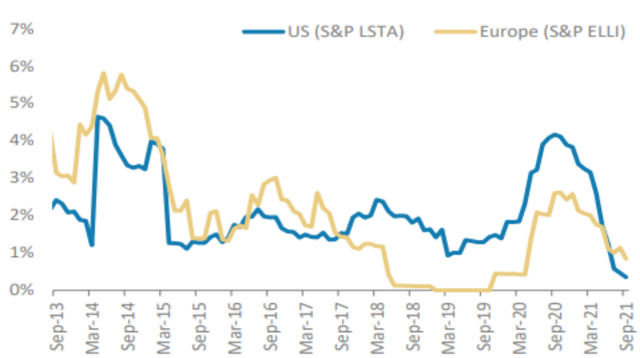
Source: Bloomberg.

Fundamentals Remain Positive

- As spreads have remained range bound on higher supply, underlying loan fundamentals have continued to be a tailwind and we expect that to continue. Loan defaults decreased by 12bps, to 0.35%, for the US and decreased by 29bps, to 0.85%, for Europe month over month at the end of September. (Exhibit 3) We also continue to see loan upgrades and lower Caa1/CCC balances in CLOs as company earnings continue to surprise to the upside. The current CCC% in CLO portfolios stand at around 5% and continues to trend lower (Exhibit 4 below).

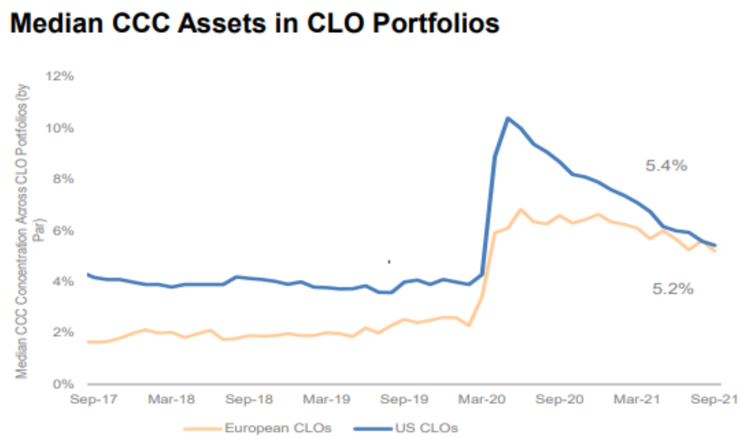
Exhibit 3 - Loan default rates continue to decline

Leveraged Loan Default Rates LTM (by Principal Amount)



Source: Morgan Stanley Research, S&P LCD. As of 9/30/2021. LTM (last twelve months)

Exhibit 4 - CCC assets continue to decline in CLO Portfolios



Source: Morgan Stanley Research, Intex. As of 9/30/2021.

Summary

Given the portfolio positioning, we are confident in the outlook moving forward. We believe our portfolio is embedded with strong catalysts that will not only drive potential returns, but will also help mitigate volatility. More specifically, the portfolio has high current yield and the potential to generate price appreciation, and finally the portfolio has been providing low interest rate and relatively low spread duration*.

Please do not hesitate to contact us at investorrelations@palmersquarecap.com or 816-994-3200 should you desire more information. We would also be happy to set up a call and/or meeting at your convenience.

*Please see Notes and Disclosure for definitions.

Appendix - Summary Themes:

- **Current Positioning: Low Duration, Up In Quality, Relative High Carry;**
- **Macro Headwinds Build as Valuations Remain Stretched;**
- **Corporate Fundamentals Continue to Improve.**

Theme I. Current Positioning: Low Duration, Up In Quality, Relative High Carry

We believe our strategies are positioned to benefit our investors:

- Attractive yields;
- Lower duration, higher quality bias;
- Diversification potential;
- Rotational ability to potentially take advantage of dislocations as they arise.

Investment Considerations:

» First is the **pace** of reopening and economic recovery. The shape of the recovery was steep initially with Q3 2020 GDP up 33.4% (effectively recovering 74% of the $2.2 trillion decline in 1H 2020) followed by 4.3% and 6.4% respectively for Q4 2020 and Q1 2021. While the U.S. and European economies seems to be in decent shape (due to successes in vaccinations and inching closer to some form of herd immunity), emerging markets on the other hand continue to deal with surges in the Delta Variant which have both a direct economic cost as well as an indirect impact on the global supply chain. In summary, to the extent it takes longer than expected to reduce COVID-19 prevalence, the current jubilant market mood may quickly shift negatively leading to both technical and fundamental deterioration. *In this event, the Fund would be able to re-allocate exposure and, just like in March and April of 2020, add opportunistically to certain asset types at attractive levels.*

» The second theme to focus on is interest rates. The debate on whether the current surge in inflation is transitory or structural remains inconclusive in our opinion. And while there are clearly some transitory factors at play, namely building materials, commodities and car prices, we also see a lot of structural inflationary forces at work. Companies are dealing with the current increases in labor and input costs by passing them along as much as possible to the end customer. These increases tend to be more sticky and less likely to be reversed. Furthermore, the evolution of China's economic model from exporter to consumer along with the growing theme of ESG (environmental, social, and governance) are also structurally inflationary. To what extent does elevated inflation alter the Fed's reaction function is a whole other question. But the house view is still cautious on interest rates, especially after the retracement in the 2nd quarter. *The Fund would be a net benefactor from rising rates, particularly if front end rates increase as that would increase the coupons on the floating rate component of the strategy.*

» The last theme to watch out for is asset bubbles. While somewhat isolated so far, there appears to be bubble-like behavior in certain "theme or meme" stocks like AMC[1], tech stocks in general, SPACs (special purpose acquisition company), "new economy" stocks in the online gambling and cannabis sectors, and crypto currencies just to name a few. A primary driver of these bubbles is the elevated level of U.S.

[1]The Fund did not own this security as of 9/30/2021. *Please see Notes and Disclosure for definitions.

savings, which in turn is due to direct-to-consumer stimulus measures. Eventually, the economy won't need stimulus anymore and the pools of capital propping up these valuation levels will subside. The saying goes, nothing brings out sellers more than lower prices. As such, the risk is that some of these bubbles pop leading to declines in peripheral areas which in turn can lead to broad based risk reduction. *But any such event would likely be a buying opportunity if it resulted in spread widening in the credit market.*

Theme II. Macro Headwinds Build as Equity/Credit Valuations Remain Stretched

» In our view, inflation is the biggest threat to both fixed income and equity valuations at current levels. Unfortunately, most of the inflationary headwinds that emerged in Q2 persisted or intensified in Q3 2021. The global supply chain continues to struggle to normalize in the post pandemic world. Anecdotes are omnipresent. Hundreds of ships wait to dock outside critical ports in Shanghai, Singapore, Shenzhen, Hong Kong, Los Angeles and others; the key East West freight index has increased by 557% since May 2020, and 108% just from May 2021. Shortages of truck drivers means that even when goods get to port they are taking longer to get to their final destination – a recent article in AltDriver indicated that a Texas trucking company is paying drivers up to $14,000 per week. The shortage of semiconductors, which go into just about everything these days, looks to persist well into 2022 and US auto sales plummeted to a 12.2m annualized rate in September due to record low dealer inventories caused by production stoppages. Electricity shortages emerged in China, India and Europe due to supply issues in natural gas and coal, leading to sporadic energy rationing. For example, the Rotterdam coal spot price reached $274/mt in early October blasting past the previous record high in 2008. In summary, the global economy hasn't seen this much disruption to supply chains since the Global Financial Crisis.

» The ramifications of this unprecedented disruption on corporates and consumers are two-fold. Companies can't sell as much products and services as they would like, and the cost to produce and deliver these goods and services has increased sharply. And these supply issues are simply additive to the steep inflation already seen in key raw materials such as oil, steel, paper, plastic, chemicals, food, electricity, etc. To-date, many companies have been able to pass on most of this cost inflation to their customers yet it appears the impact on consumer demand has been muted. The August retail sales data was surprisingly strong and ahead of estimates. But the longer this inflation persists, the more worrisome it becomes. Third quarter earnings season has just started, and the market has already seen several large downward guidance revisions from some bellwethers (BBBY, NKE, UPS, TGT, DE, etc.)[2] driven mostly by cost factors. These issues appear to be an "equity problem" in the sense that while future earnings expectations are being lowered, companies are still profitable, generating cash and reducing leverage (which is very positive from a credit perspective). Needless to say, this issue has been the primary focus of our research team in the 3rd quarter and is contributing factor to why we generally remain conservatively positioned across Palmer Square strategies.

» To balance out this discussion, there are still a lot of positives to mention. The demand side of the equation remains strong, driven by a continued reopening of economies across the globe. In fact, this pent-up demand is part of the reason for the supply chain disruptions. The US consumer balance sheet remains *mostly* strong, driven by fiscal

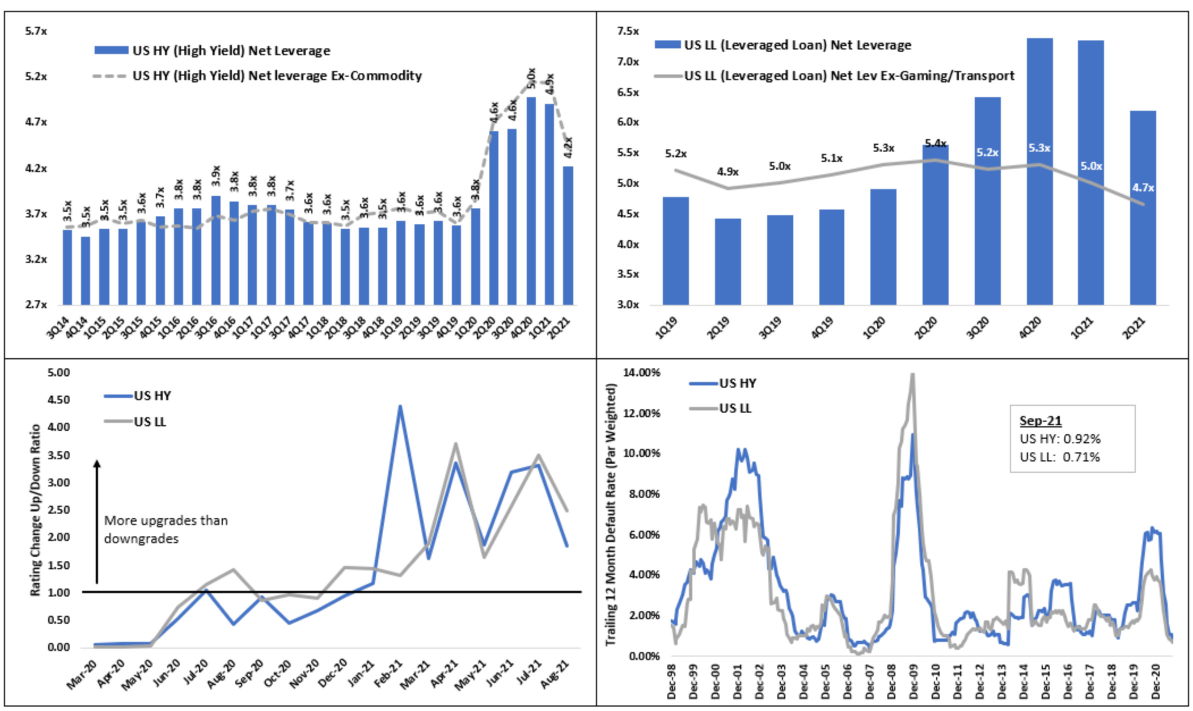
[2]The Fund did not own these securities as of 9/30/2021. *Please see Notes and Disclosure for definitions.

measures, rebounding growth, jobs growth and historically high asset prices (houses, equities, retirement accounts, etc.). We say mostly because the end of the eviction moratorium may cause some issues near term. Corporate balance sheets are also improving by the quarter, despite the supply chain and raw material inflation. We'll talk more about this in the next section. And lastly, the financial market infrastructure and banking system remains well capitalized and stable.

» To summarize our macro view, we are always looking to balance fundamentals with valuation. We can be bullish when fundamentals are weak but valuations are attractive. Likewise, we can also be cautious when fundamentals are strong but valuations are stretched. At the moment, we view corporate fundamentals as strong and our positioning leans up-in-quality and low duration. We continue to see relative value in structured credit relative to corporate credit. The former is both 1) not at the spread tights, and 2) offers a spread pickup to corporates isolating for quality and duration.

Theme III. Corporate Fundamentals Continue to Improve

» By almost all measures, corporate credit fundamentals continue to improve and in many cases are back to pre-COVID-19 levels. Trailing 12-month leverage metrics ticked down significantly in Q2 for both HY bonds and loans. Rating actions continue to be net positive as the agencies steadily walk back a lot of the downgrades given in March/April 2020. In our view, corporates have simply fared much better than the agencies expected. August saw the 9th straight month of net upgrades. And lastly, default rates have plummeted. The current LTM default rate for HY bonds and bank loans stands at 0.92% and 0.71% respectively. This is driven by both an improvement in credit fundamentals and a very healthy capital market which has been receptive to CCC refinancings.



Source: JPMorgan. As of 9/30/2021. Leveraged Loan (LL).

Notes and Disclosure

This overview is for informational and comparative purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any interests in the Palmer Square Opportunistic Income Fund, the ("Fund"), and/or any other securities, or to provide any other advisory services. Any offer to invest in the funds will be made pursuant to the Fund's prospectus, which will contain material information not contained herein and to which prospective investors are directed. Before investing, you should carefully read such materials in their entirety. This overview is not intended to replace such materials, and any information herein should not be relied upon for the purposes of investing in the Funds or for any other purpose. This overview is a summary and does not purport to be complete.

The Palmer Square Opportunistic Income Fund is a closed-end fund.

Interest Rate Duration measures a portfolio's sensitivity to changes in interest rates. **Spread Duration** measures the sensitivity of a bond price based on basis point changes of more than 100. **Yield To Call** is the yield of a bond or note if you were to buy and hold the security until the call date. **Yield To Maturity** is the rate of return anticipated on a bond if held until the end of its lifetime. **Current Yield** is annual income divided by price paid. **Beta** describes an investment's volatility in relation to that of the stock or bond market as a whole. For example, the S&P 500 is typically considered to be "the equity market" and it has a beta of 1.0. Yield to Expected Call is a Yield to Call metric that assumes callable bonds are not called on their call date, but at some later date prior to maturity. **Yield to Expected Call** considers contractual terms in a bond's indenture or other similar governing document. A bond may be called before or after this date, which has the potential to increase or decrease the Yield to Expected Call calculation. All else equal, when a bond's price is below par, Yield to Expected Call is a more conservative yield metric than Yield to Call. If a bond is not callable, Yield to Expected Call calculates the bond's Yield to Maturity. **Credit Spreads** are often a good barometer of economic health - **wide or widening (bearish sentiment)** and **narrowing/tight or tightening (bullish sentiment)**. The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of publicly issued investment grade corporate, US Treasury and government agency securities with remaining maturities of one to three years. The **S&P 500 Index** is a market-value weighted index provided by Standard & Poor's comprised of 500 stocks chosen for market size and industry group representation. **JPMorgan Liquid Loan Index** - is a market-weighted index that measures the performance of the most liquid issues in the investment grade, dollar-denominated corporate bond market. **ICE BAML High Yield Index** - tracks the performance of non-investment-grade corporate bonds. Unlike mutual funds, indices are not managed and do not incur fees or expenses. The **S&P/LSTA U.S. Leveraged Loan 100 Index** is designed to reflect the performance of the largest facilities in the leveraged loan market. The **S&P European Leveraged Loan Index (ELLI)** is a market value-weighted index designed to measure the performance of the European institutional leveraged loan market. It is not possible to invest directly in an index.

The allocation and credit quality distribution figures shown are used for illustrative purposes only. Palmer Square does not guarantee to execute that allocation and credit quality distribution. Allocation and exposures information, as well as other referenced categorizations, reflect classifications determined by Palmer Square as well as certain Palmer Square assumptions based on estimated portfolio characteristic information. Allocation and credit quality distribution figures may not sum to 100%. Ratings listed herein are assigned by Standard & Poor's (S&P) and Moody's Investor Service (Moody's). Credit quality ratings are measured on a scale with S&P's credit quality ratings ranging from AAA (highest) to D (lowest) and Moody's credit quality ratings ranging from Aaa (highest) to C (lowest). We use the higher of the two ratings. Credit ratings listed are subject to change. Please contact Palmer Square for more information.

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Collateralized Loan Obligations Risk – The Fund may invest in CLOs. The Fund is subject to asset manager, legal and regulatory, limited recourse, liquidity, redemption, and reinvestment risks as a result of the structure of CLOs in which the Fund may invest. A CLO's performance is linked to the expertise of the CLO manager and its ability to manage

Notes and Disclosure cont’d

the CLO portfolio. Changes in the regulation of CLOs may adversely affect the value of the CLO investments held by the Fund and the ability of the Fund to execute its investment strategy. CLO debt is payable solely from the proceeds of the CLO’s underlying assets and, therefore, if the income from the underlying loans is insufficient to make payments on the CLO debt, no other assets will be available for payment. CLO debt securities may be subject to redemption and the timing of redemptions may adversely affect the returns on CLO debt. The CLO manager may not find suitable assets in which to invest and the CLO manager’s opportunities to invest may be limited.

The risks of an investment in a collateralized debt obligation depend largely on the type of the collateral securities and the class of the debt obligation in which the Fund invests. Collateralized debt obligations are generally subject to credit, interest rate, valuation, prepayment and extension risks. These securities are also subject to risk of default on the underlying asset, particularly during periods of economic downturn. Defaults, downgrades, or perceived declines in creditworthiness of an issuer or guarantor of a debt security held by the Fund, or a counterparty to a financial contract with the Fund, can affect the value of the Fund’s portfolio. Credit loss can vary depending on subordinated securities and non-subordinated securities. If interest rates fall, an issuer may exercise its right to prepay their securities. If this happens, the Fund will not benefit from the rise in market price, and will reinvest prepayment proceeds at a later time. The Fund may lose any premium it paid on the security. If interest rates rise, repayments of fixed income securities may occur more slowly than anticipated by the market which may result in driving the prices of these securities down. The Fund is “non-diversified,” meaning the Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers than a diversified fund. Investment in securities of a limited number of issuers 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. Foreign investments present additional risk due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. High yield securities, commonly referred to as “junk bonds,” are rated below investment grade by at least one of Moody’s, S&P or Fitch (or if unrated, determined by the Fund’s advisor to be of comparable credit quality high yield securities). The Fund is new and has a limited history of operations.

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