Zeo Capital Advisors

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ZEO QUARTERLY LETTER: 1Q2020

Dear Clients:

In these pages in past quarters, we've shared our observations of markets, risk and opportunities. Many of those discussions have been big picture commentaries from a bird's eye view. This one will not be. We have spent much of the last month watching our clients impacted by the COVID-19 global health crisis in many ways. With so many areas in need of your attention, both personal and professional, our goal here is to give the details needed for readers to share in our confidence in our portfolio.

Let's not bury the headlines. The declines in the markets over the last month have been steep and sudden, and our portfolios are no exception. But we have revisited our credits multiple times in the last few weeks, before and after our investor call on 3/17,[1] and we continue to affirm that each holding's investment thesis is intact. Furthermore, we do not have exposure to energy, travel, leisure or hospitality in our funds. While these are positive observations, they do beg the question: What happened? As is often the case in investments and life, the answer is nuanced.

This is not a simple story of too much credit risk, as it might be convenient to conclude from the outside. Rather, there are three parallel stories going on at once: (1) a strong fundamental portfolio which has performed as expected, with two category exceptions; (2) senior loan holdings which have materially outperformed their asset class; and (3) a retail sector in which indiscriminate selling has been independent of underlying fundamentals, causing both price declines and opportunities.

A deeper dive into our performance, as told in these three parts, reveals some confidence-building insights about our portfolio and some interesting observations about the broader markets. In true Zeo fashion, we've been responding to this once-in-forever event with analysis, data and transparency, and that is what we aim to provide in this letter by lifting up the hood and showing you what we see on the inside.

What Happened To Zeo?

The high yield market and the short-term high yield market both peaked on February 20, 2020. The Zeo Short Duration Income Fund (ZEOIX) started to experience price declines two days later. The investment grade markets followed suit nearly two weeks later, reaching highs on March 5 and March 6 for short-term and broad market, respectively. Since then, this event has been about more than just the magnitude of the marks. Only a handful of markets in one's lifetime can be truly described as disorderly. This has been one of them.

First, it's worth refreshing readers on our credit analysis process. As we look at companies, we look first and foremost for what we consider key signs of resilience. We are focused on whether

1 Anyone interested can find the replay here: https://www.zeo.com/investor-call-replay-transcript-2/

a company has a defensive business model; we are focused on whether a company has liquidity; we are focused on whether a company generates significant cashflows; and we are focused on whether a company maintains reasonable levels of leverage and whether the management team takes a conservative or aggressive view toward its capital structure. We have these priorities for our portfolio companies regardless of the market environment.

So even six months ago, when the credit markets were acting as if there was no limit to how high they could go (a viewpoint we have disputed often in the past),[2] we were evaluating companies with resilience in mind. But why? It was certainly not because they would need these characteristics in an environment where every credit, good or bad, could access the capital markets and lock in record-low interest rates. We look for these factors exactly for times like we are experiencing now. A company's liquidity is there for when they need to manage through a difficult environment. When we build our credit models, we stress test our companies in dire scenarios. We are never so complacent as to not acknowledge that a 2008-like scenario could happen again. Our objective in doing so is to determine if a company's liquidity, cashflows and leverage can withstand not just a small hiccup in their business but a deep long-tail recession. They will use their liquidity. Cashflows will dip. Leverage will tick up. In these types of extreme market moves, every company is going to bend. Our process is designed to selectively identify the ones that are unlikely to break.

Here, it is worth noting that any credit analyst who tells you that they anticipated what we are going through now is pulling your leg. By that, I don't mean we didn't prepare for a significant market downturn or a potentially deep recession. We did, and we are not the only analysts who do stress testing on companies and seek resilience. But no one was modeling zero. The scenario in which people cannot leave their houses and businesses need to close for weeks or months on end, leading some companies to earn virtually no revenue for that period, is a new one, even for us. So our new base case stress test for many of our companies in the current environment is a two- to three-month period of no revenues followed by an 18- to 24-month long-tail recession. From there, where appropriate, we might stress a company even further.

But, even with this revised downside assumption, our bias toward resilient companies has renewed our confidence that our issuers have the liquidity and cashflows to manage not only through the short-term shock we see in the headlines right now but also through the economic rebuilding that must happen afterwards. Capital markets may be harder to access. Businesses may be more reluctant to invest and hire. Customers may not spend as much. But for our issuers, we believe that strong financial positions and conservative (and wise) decisions to reduce leverage and increase liquidity during the good times has put them in a position to be able to navigate the headwinds of a looming recession.

All that said, despite the disorderly market, it's still possible to go deeper than an explanation of our investment process to shed light on what happened. If one is just looking at the closing NAV each day and comparing relative moves on a daily basis, we could understand why someone might draw the incorrect conclusion that we got it wrong on the fundamentals of our companies or that we were expecting the bull market to last forever. Let's set aside that this latter point is clearly inconsistent with both our investment process and our repeated warnings over the last few years to expect more volatility in the markets than was being priced in. The data also tells a different story.

2 Readers can reference sections from almost every letter we've ever written, both recent ("Apparently, Hope IS a Strategy" [Q3 2019]; "The Intoxicating Rush of a High-Flying Market" [Q2 19]; "The Money Stork" [Q1 19]) and from what seems like forever ago ("Will You Even Notice When the Tide Goes Out?" [Q4 18]; "Myth: Low Volatility Is Here To Stay" [Q3 17]; Trading Investing in Fixed Income [Q1 2016]).

Table 1 shows the total return attribution for ZEOIX and the four asset classes mentioned as represented by their respective Bloomberg Barclays indices from the start of this market correction through March 24, the lowest point for our fund but the first day the indices began to rally on reports of agreement in Congress on the terms of a stimulus bill.[3] We aggregated the attribution into the three key themes that, together, lay the foundation for what we believe to be the underlying narrative of our portfolio in this market.

Table 1: Total Return Key Performance Attribution[4]
(2/20/2020 to 3/24/2020)

	ZEOIX	Investment Grade	Short-Term Inv Grade	High Yield	Short-Term High Yield
Total Return	**-14.1%**	**-11.5%**	**-6.3%**	**-20.3%**	**-18.5%**
Attribution[5]					
Consumer cyclical[6]	-4.0%	-1.2%	-0.8%	-3.9%	-3.2%
Syndicated loans	-1.6%				
Other sectors	-5.8%	-10.2%	-5.4%	-16.0%	-14.8%
Other unattributed[7]	-2.7%	-0.1%	0.0%	-0.4%	-0.5%

Source: Bloomberg Finance LP, Zeo Capital Advisors

Syndicated loans and the consumer cyclical sector are the two most notable contributors to our portfolio's performance, and each deserves its own detailed discussion later in this letter. Furthermore, by isolating these two subsets of the portfolio and looking at the remaining positions in aggregate, labeled "Other sectors", we can reveal what we believe to be an affirming observation, as seen in Table 2.

3 Choosing this date was a topic of much discussion at Zeo. The date ZEOIX was at its lowest point was also the same day that equity markets across almost every major index were up between 8% and 12% and credit markets began to rebound with bond prices in large fixed income ETFs and benchmark indices gapping up due to the supply/demand imbalance of such big market moves. Because bonds don't trade evenly and with 100% correlation, ETF bonds tend to react to the broader markets more immediately (in both directions) than bonds favored by value investors like us. We discuss this effect more later in this letter, but suffice it to say here that it results in an imperfect comparison. However, we feel under the circumstances, erring on the side of humility and presenting data which may be conservative or even punitive to us is consistent with our brand and is the right choice.
4 The asset classes are represented by their respective Bloomberg Barclays indices. Investment Grade represents the US Corporate Bond Index. Short Term Investment Grade represents is US Corporate 1-5y Total Return Index. High Yield represents the US Corporate High Yield Bond Index. Short-Term High Yield represents the US High Yield 350m Cash Pay 0-5y 2% Capped Bond Index. Also in this letter, though not in this table, we reference Bank Loans as an asset class, which represents the S&P/LSTA Leveraged Loan Index. These indices were chosen because they are or closely mirror the benchmarks for the best-known ETFs used by investors to get exposure to each of these asset classes within corporate credit. **Important disclosure:** Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results.
5 This attribution was done using Bloomberg Finance LP's portfolio performance attribution tool. We chose to use this method because (a) it is a third party with decades of experience in bond analytics; (b) it uses a last publicly reported portfolio date of 1/31/2020, which is much more recent than one might get from other sources; and (c) it uses the most accurate markets because Bloomberg is the primary platform through which dealers and institutional investors communicate for corporate bond trading. While it is not perfect, we believe this approach provides the best combination of accuracy and reliability for the purpose of this discussion.
6 Bloomberg classifies transportation as a separate sector from consumer cyclical. However, due to the cyclical and consumer-facing nature of the transportation industry, we include it in consumer cyclical for the purpose of this letter.
7 "Other unattributed" represents that portion of the total return for the period that was not attributed to a specific holding, sector or asset class. This can usually be explained by a combination of factors, including additional performance related to averaging down in an actively-managed portfolio such as ours, rebalancing in passive portfolios such as the indices and the accrual of expenses.

Table 2: Total Return excl. Consumer Cyclical / Syndicated Loans (2/20/2020 to 3/24/2020)					
	ZEOIX	Investment Grade	Short-Term Inv Grade	High Yield	Short-Term High Yield
Other sectors	-8.6%	-11.3%	-6.0%	-19.5%	-17.9%

Source: Bloomberg Finance LP, Zeo Capital Advisors

In short, for this portion of the portfolio, the performance was more in line with what might be expected. We have always made the case that, by doing deep-dive credit analysis and aiming to select the stronger-credit-quality issuers in the short-term high yield universe, we could try to deliver a fund that performed more similarly to higher quality credit portfolios. With the exception of the two notable differences we've already highlighted and will discuss in detail later, it appears we may have. Furthermore, in this subset of our holdings, the decline was significantly less than the high yield asset classes that would typically be considered our peer groups.

We believe this part of the story is consistent with what our clients expect of us: that we select companies with good fundamentals which will exhibit resilience in the face of economic headwinds. And for those sectors and asset classes which were innocent bystanders to the catalysts triggering this downturn, it appears the underlying fundamentals weren't forgotten. In our view, this is why that portion of our portfolio declined at a far lower rate than the same industries in the less discriminating indices.

Syndicated Loans: Strong Fundamentals Meet Weak Technicals

Before Dodd-Frank, there was a big difference between dealers and brokers. Loosely distinguished, the dealers were the larger underwriters, often part of banks with larger corporate banking efforts, whose traders were able to use significant amounts of balance sheet to provide liquidity to trading customers. Brokers, on the other hand, usually didn't have balance sheet and acted as agents, simply lining up and sitting in the middle of buyers and sellers, who would effectively trade with one another. The difference is largely one of risk and timing. A dealer using balance sheet might buy a bond from a customer seller without being in touch with a buyer. The bet the trader is making is that she has chosen the right price and can then sell that bond to a buyer later for a price higher than what she paid previously.

There is value to this service, as the trader has taken market risk and provided liquidity without being sure she could unload the risk profitably. The broker acting as agent, on the other hand, does not take market risk and rather tries to line up a buyer and seller at the same time. If he is successful, both sides would trade at the same time at prices that reflect a small spread for the broker for lining up the trade. But, if both a buyer and seller do not appear at the same time, no trade gets done, and the seller in particular does not get the liquidity she might need. Back then, the spreads earned by brokers were often smaller than the spreads earned by dealers, though the growth of transparency created by the TRACE system already lowered the compensation dealers received for taking additional risk.

Since Dodd-Frank, the difference between dealers and brokers has narrowed significantly. For many fixed income securities, banks no longer received favorable capital treatment for holding those assets, which means the liquidity ratios monitored by the Federal Reserve are made worse if the dealers use balance sheet as liberally as they used to. Dealers have started behaving like brokers. They still use some balance sheet, but the regulatory framework has served as a massive disincentive to provide liquidity to customers. So when they show bids and offers now, it's as likely, if not more so, that those are indicative levels (i.e. not tradable) rather than actual markets which customers can count on for liquidity.

Moreover, there is an imbalance between bids and offers as well. If a market maker shows an indicative offer and a customer tries to lift him, it's annoying but not problematic if he fades (i.e. communicates that he won't trade at his published offer level because he doesn't want to actually sell bonds there). The customer simply couldn't get the risk she wanted. But, if a market maker fades on a bid, he risks getting in trouble because not helping a client get out of risk she doesn't want is viewed as a worse offense than not selling her bonds to take risk. As a result, in down markets, the dealers tend to shave markets down significantly so as not to accidentally show a bid a customer might want to hit. They are incentivized, due to the tighter spreads from transparency and the poor regulatory balance sheet treatment, to try to only show a bid at a level where they believe they can act like a broker, matching buyers and sellers without taking risk. This results in an abnormally low indicated bid, which in turn drives lower NAVs for mutual funds holding those bonds. But it's all dependent on prices that aren't necessarily reflective of where a trade would happen since the dealers don't really know.

This is particularly problematic in a disorderly market like the one we just went through. Actual investors who are looking to buy bonds are using the dealer levels as indications of where they should be willing to bid. Why? In a market where there seems to be no bottom, they of course aren't willing to pay higher than they must to get bonds. But if the dealers are showing lower levels, why bid higher and risk paying more than you might have to? And they don't leave bids at lower levels in case they get run over by a seller who sells to them and then keeps selling more and lower.

This is, in part, what happened to both the high yield and syndicated loan markets in the last month. As it pertains to the loan portfolio, a few other factors were at play as well. With interest rates dropping precipitously, the attraction of floating rate securities was waning. In addition, there was a fear gripping the markets that LIBOR settings might go negative. Since many of the loans issued in the last several years, which were mainly bought by CLOs and added to leveraged loan indices, did not have a provision which set a minimum level for the interest rate fixing (called a LIBOR floor), this means these securities might pay even less interest than originally thought.[8] For these reasons, the demand for loans legitimately declined.

However, loans can be fundamentally strong investments. They are senior in capital structures, which makes them first in line to recover principal in a restructuring. Not all loans get paid back, as that still depends on the underlying issuer's credit quality, but for those companies with staying power, a leveraged loan could present a much more attractive fundamental risk/reward than unsecured debt.

8 In our view, a negative LIBOR fixing is an extremely unlikely occurrence. LIBOR, which stands for the London Interbank Offer Rate, is the rate at which banks in London are willing to lend to one another. While a negative central bank rate is conceivable if policy makers want to incentive banks to borrow and then add money to the economy by paying them to do so, the likelihood that one bank would pay another bank to take their money is tough to swallow. That said, we aren't economists, so reasonable people might disagree.

It wasn't until bond and loan pricing completely decoupled from company fundamentals in the latter half of March that none of this mattered anymore. Ultimately, the forced selling from ETFs facing redemptions created a large technical supply/demand imbalance. And where were the dealers? Exactly where we said they would be. At times, we spotted dealers showing five-point-wide markets, where bid/offers are usually closer to 0.5 to one point. We saw some of those markets moving up or down five points a day as well, as the market makers desperately tried to discover the price at which they wouldn't be expected to take risk.

The end result was this: The S&P/LSTA Leveraged Loan Index was down 21.3% between the same dates of 2/20 and 3/24, as shown in Table 3. To be clear, some of the loans in this index will indeed run into credit trouble. We have never been comfortable watching investors buy broad market bank loan or high yield index funds because, by design, it's not possible to avoid at-risk companies. But for a selective credit manager like us, where individual security selection is the first, second and third priority in our investment process, there is an opportunity to use this asset class for its fundamentals without taking on unnecessary default risk.

Table 3: Total Return for Syndicated Loans
(2/20/2020 to 3/24/2020)

	ZEOIX	**Bank Loans**
Syndicated Loans	-11.5%	-21.3%

Source: Bloomberg Finance LP, Zeo Capital Advisors

We believe the fact that our loan portfolio was down only 11.5% in the same period that the index was down almost twice as much indicates once more that our credit selection process was sound through this correction. Combined with our explicit decision to maintain an average of 13.7% concentration in loans, kept relatively low to acknowledge the unique dynamics of the asset class, our loan book's contribution of 1.6% to our overall NAV decline is not unreasonable even as it was unexpected. To be clear, we aren't cheering either the 11.5% negative total return or the 1.6% negative contribution to our performance. We would have much preferred the fundamentals of the portfolio to stand their ground relative to the loan market technicals. But we cannot control the level of fear among less discriminating investors. What we can control is our credit selection and portfolio construction. Both provided a relative advantage during this recent fear-driven market decline, and we believe that advantage will be even more evident as credit quality takes center stage in a recession. We expect dispersion to reappear, with some holdings stabilizing and recovering while others reflect the very real risks of a difficult economic environment. In our view, the strong fundamental approach we take to loans is more likely an opportunity than a risk going forward.

That said, while our low overlap with CLOs and ETFs is typically an advantage, in this case, it also means that the recovery is dependent on active managers choosing to buy bonds and loans up to their fundamental value. It takes a while for competitive investors to capitulate and pay a higher price than the dealer bid or a higher price than the last guy got to get the bonds or loans they want, even if it's a good price with an attractive yield both absolutely and relative to where they were valued before the decline. But eventually, once rationality and calm settles back into the markets, impatience will likely win out. At that point, investors come to recognize that the fundamentals point to a higher fair value and start bidding up until offers emerge, setting new prices for the dealers to use to indicate their markets with actual buyers and sellers represented on both sides.

Retail: When Consistency Fails

As we discussed earlier, our credit analysis biases toward those companies that have characteristics we believe make them resistant to the full impact of a prolonged recession. Put simply, we seek consistency and resilience. Taking it one step further, as we also highlighted, we've applied even stricter stress tests to our companies in recent weeks to recognize the short-term demand shock being applied to the economy in addition to the long-term headwinds from a recession that is highly likely.

But what we didn't discuss yet is in what types of industries we tend to find these companies. One of the toughest jobs of a fundamental high yield credit analyst is sifting through the bond and loan universe for the issuers who are misunderstood and undervalued. This isn't just a task of credit research; it's also a task of value-for-money analysis, making sure that one isn't buying into the heady optimism of otherwise mediocre businesses.

Within high yield, there is usually no shortage of optimism, current markets notwithstanding. Companies tend to find ways to pull rabbits out of hats, and investors are eager to bet that they will. There are many sectors and industries that are popular with analysts who seek price appreciation or who may be overly reliant on asset values instead of cashflows to support their credit view. Energy is one well known example of this, where investors get their credit support from the value of assets heavily dependent on commodity prices and make bets on high-octane outcomes (pun intended). But sometimes, the appeal of hitting homeruns is just too much for some analysts to resist, and the supply/demand dynamic in such sectors tends to result in poor risk/rewards. So we stay away.[9]

With the consumer cyclical sector, the story gets a bit more nuanced. Here, you will find a broad collection of companies across a variety of different industries, including gaming, leisure, lodging, restaurants, retailers and transportation. Through our credit analysis, we find the most mispricings in our favor in the retail industry. That isn't to say there aren't at-risk retail companies. There certainly are, not just today but even six months ago. But if we are looking for babies being thrown out with the bathwater, this is a group ripe for the types of misunderstandings and generalizations which create opportunities for investors.

As a result, whereas our average concentration in the consumer cyclical sector (18.5%) has been similar to that of High Yield[10] (17.9%) and Short-Term High Yield (17.1%), we generally have a bias toward retailers that we identify as having sufficient liquidity and cashflows to enable them to be more consistent across different economic environments. And unlike the high yield indices, our investment in this sector contains no gaming, leisure, lodging, restaurants or transportation. Those industries tend to fall into the unfavorable risk/reward category. Meanwhile, their high underlying cyclicality, much more than in the resilient retail companies we favor, introduces way too much fundamental risk for us to justify an investment.

The flipside of this disciplined approach to credit has been laid bare for us all to see in the last month. As we discussed in the previous section, when fear grips a market, technicals can take control of pricing away from the underlying fundamentals of the companies in a portfolio. But we can't say this clearly enough: Such indiscriminate trading is and always has been temporary. At some point, the

9 Notably, we held no energy through this downturn while both high yield indices held approximately 10-11%. Both also experienced a decline of over 40% in the energy sector.

10 As in our tables, High Yield and Short-Term High Yield reference the Bloomberg Barclays US Corporate High Yield Bond and US High Yield 350m Cash Pay 0-5y 2% Capped Bond Indices, respectively.

underlying fundamentals of an issuer drives the success of an investment. With fixed income, this is especially important, as success is not measured the same as with equities. Rather than gaining or losing based on long-term price movements and overall enterprise values, credit is naturally constrained by a company's ability to repay its debt at maturity. And the shorter the maturity, the more likely the underlying fundamentals will kick in and regain control of pricing from the technical supply/demand impact created by fearful investors.

Nowhere is this conflict between technicals and fundamentals more evident right now than in the consumer cyclical sector we've been discussing. So much of what is happening right now can be understood by the simple observation that the markets are treating all of these industries as if they are one and the same, with each seemingly expected to bear equal levels of risk in both the short-term and the long-term. In our experience, this is a gross oversimplification in general and is especially suspect in the current environment. What we've seen in the consumer cyclical sector isn't just a few babies being thrown out with the bathwater. We're seeing every baby being thrown out with every tub of bathwater. Within High Yield, the total returns of the gaming, leisure, lodging, restaurants, retailers and transportation industries were 26.01%, 31.88%, 22.91%, -21.78%, 22.56% and 25.56%, respectively. Within Short-Term High Yield, the same sectors returned 20.90%, 29.45%, 25.86%, 25.86%, -22.72%, -19.01% and -22.74%, respectively. The market has clearly paid very little attention to the differences between these industries or durations.

Table 4: Total Return, Consumer Cyclical vs. Other Sectors

(2/20/2020 to 3/24/2020)

	ZEOIX	**Investment Grade**	**Short-Term Inv Grade**	**High Yield**	**Short-Term High Yield**
Consumer cyclical	-21.6%	-12.5%	-8.4%	-21.9%	-18.7%
Other sectors	-8.6%	-11.3%	-6.0%	-19.5%	-17.9%

Source: Bloomberg Finance LP, Zeo Capital Advisors

Despite the material underlying differences between our exposure to the consumer cyclical sector and that of the high yield indices, Table 4 shows clearly that, in this one aspect of our portfolio, market participants have simply chosen not to differentiate. Whereas the rest of our bond portfolio may have performed more consistently with higher credit quality bonds, our consumer cyclical bonds behaved exactly like high yield. We didn't aim for this to be so, but we believe this is unique to the extraordinary environment that we are facing now: an environment in which credit analysts must model zero; an environment in which the risks go beyond those of a demand-driven recession; and an environment so very different from 1987 and 2008 even though comparisons are being made because that's the only frame of reference today's investors have. More importantly, we believe our bonds in this sector to be meaningfully mispriced as a result.

As investor panic subsides and underlying issuer fundamentals regain mindshare, we expect to see differentiation between the companies we own and those that are truly at risk in the coming years while the economy attempts to recover from the drastic consequences of the COVID-19 global health crisis. As it pertains to our portfolio, our confidence in the fundamentals of each and every credit remains strong. While we won't be so cavalier as to call a bottom, we are definitely seeing bonds in our portfolio at levels that may be opportunities of a lifetime. We continue to work hard to capitalize on this dislocation on behalf of our clients to the extent possible. On the spectrum of buy/hold/sell, we would argue the data tilts toward the buy/hold end. But we understand that having confidence in that assessment requires more visibility, and that is what we hope we have provided in this letter.

Especially in these times, we thank you for both your audience and your continued support and confidence in our management. As always, we are available for your questions, comments or feedback. Our firm's foundational principle to be accessible exists specifically for times like these. We have been able to speak to or email with many of you already, and we hope you've found our transparency helpful. We look forward to many more opportunities to share our thoughts in both the short- and long-term as we all collectively enter a new paradigm of investing that may be unrecognizable for some time to come.

Sincerely,

Venk

Venkatesh Reddy
Chief Investment Officer

ZEO SHORT DURATION INCOME FUND (Ticker: ZEOIX)								
Quarter End: 31 March 2020	Nav	1M	3M	YTD	1Y	3Y	5Y	Since Inception (31 May 2011)
Zeo Short Duration Income Fund (Net)	8.84	-10.61%	-10.73%	-10.73%	-7.87%	-0.70%	0.61%	**1.75%**
Bloomberg Barclays Aggregate		-0.59%	3.15%	3.15%	8.93%	4.82%	3.36%	**3.52%**
Total Fund Net Assets: $330.5m								

ZEOIX – Total Annual Operating Expense Ratio: 1.03%. The management fee was lowered from 1% to 0.75% on May 1, 2018. Fees are retrospective and do not necessarily represent current expenses which scale down with asset growth.

The performance data quoted represents past performance net of all fees and expenses for the Zeo Short Duration Income Fund ("the Fund" or "ZEOIX"). Current performance may be lower or higher than the performance data quoted. 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. A fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month-end, please call toll-free 855-936-3863.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 855-936-3863. The prospectus should be read carefully before investing. The Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC.

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The Fund can invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities and commodities underlying those derivatives. The Fund may experience losses that exceed losses experienced by funds that do not use futures contracts and options.

Typically, a rise in interest rates causes a decline in the value of fixed income securities. Overall fixed income market risk may affect the value of individual instruments in which the Fund invests. 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. The Fund may invest more than 5% of its total assets in the securities of one or more issuers. The Fund's performance may be more sensitive to any single economic, business, political or regulatory occurrence than the value of shares of a diversified investment company. Securities of small and medium capitalization companies may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. Market risk results from adverse changes in exchange rates in foreign currency denominated securities. Investing in securities of foreign issuers involves risks not typically associated with U.S. investments, including adverse fluctuations in foreign currency exchange rates, 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.

The referenced indices are shown for general market comparisons. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from a particular mutual fund. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features

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