Zeo Capital Advisors

investor.relations@zeo.com | 415.875.5604 | www.zeo.com

ZEO QUARTERLY LETTER: 4Q2018

Dear Clients:

Have you caught your breath yet?

We've invested a lot of ink in past commentaries cautioning investors about the potential for volatility in the markets. However, this comment is not intended to be a victory lap. We will be the first to admit that our concerns came with the caveat that we couldn't say when. The case we made then was that investors should seek managers and strategies which don't depend on knowing when the markets might go up or down in order to reach their goals. All too often, investors make the mistake of comparing what should be a tactical bet with long-term strategic holdings. In doing so, it is inevitable that a tactical exposure would appear to be a candidate for the long-term, in large part due to the natural distraction from risk that comes from deceptively similar if not temporarily more attractive performance.

While the risk-minded among us can caution about potential risks and volatility until we are blue in the face, only in markets like the one we experienced this past quarter do investors tangibly feel risk. The question that faces every investor now is whether they liked that feeling. The choice is no different than it was a year ago, three years ago or in late 2007: Should you do the work now to better line up risks with your portfolio goals before the next market decline or will it be another hard lesson learned after the fact. We are here to help our clients tackle this tough task. All you have to do is ask.[1]

Will You Even Notice When the Tide Goes Out?

We will certainly not be the first to reference the quote from Warren Buffett's Chairman's Letter in Berkshire Hathaway's 2001 Annual Report: "[You] only find out who is swimming naked when the tide goes out." But we feel confident we'll be the only ones who don't fully agree that the quote applies today, because we aren't convinced market participants have truly internalized a key truth about the relationship between risk and return: the risk of an event in the future is not retroactively non-existent because it didn't happen, and return alone does not measure in hindsight the risks taken.

1 We're not kidding. Among the consultative services we offer is a fixed income portfolio risk review. Anyone who has seen our presentations on risk-adjusted asset allocation will be familiar with the approach we take. We aim to help our clients identify and allocate portfolios which better and more consistently align selection criteria, benchmarks and portfolio goals. If you are interested in learning more about this service, please feel free to contact us.

To be clear, we are not saying Mr. Buffett is wrong. Quite the opposite. But it's important to understand the context in which he wrote this line. In the letter in which it first appeared, this quote was not a commentary on the overall markets. Rather, it was a clever illustration of our key truth above as it pertains specifically to an analysis of the reinsurance industry. In particular, he compared Berkshire Hathaway's National Indemnity reinsurance business, which retains its risks, to reinsurers who transfer some of their risks to other reinsurers – think of this latter practice as insurance for the insurer. Or, to be more precise since reinsurers already protect front-line insurers similarly, it is insurance for the insurance for the insurer. In other words, leverage, and lots of it.

Some readers will already recognize this is similar to the risk we've discussed in the past regarding asset-backed structures such as collateralized loan and debt obligations (CLOs and CDOs) and mortgage-backed securities (MBS). Whether in a collection of insurance policies or in a portfolio of debt, the theory is that any one loss event or default would be paid for by the income from the remaining performing policies or debt. To attempt to reduce the impact of losses (and to achieve higher credit ratings), these structured products employ various forms of risk redistribution (e.g. tranching or reinsurance). This is not easy - investors (and reinsurers) often rely on complicated models to convince themselves that a redistribution of risk also lowers it.

In particular, these models tend to assume that the correlation of loss events is relatively low, or put simply, that bad things don't happen in groups. An explanation of why this is the case is beyond the scope of this letter. It requires a somewhat complicated deep dive into derivative pricing theory, market implied vs. actual correlations and costs of financing and leverage. However, making and selling bets on correlation are the primary ways in which Wall Street profits from derivatives such as the structures we have discussed. That it is so complicated is why we regularly urge caution and suggest staying away from such exposures. Most investors learn too late the actual risks they were taking.

In the case of structured mortgage products, never was this more evident than during the 2008 financial crisis, when supposedly safe, AAA-rated tranches of low-quality subprime debt fell victim to a high correlation of mortgage defaults that the models assumed wouldn't happen, mainly because the risk of one homeowner defaulting is *typically* not tied to the risk of another defaulting. Until it was. In the case of reinsurance, a second layer of leverage, in the form of reinsurance for the reinsurers, can be insidious in its use of the theory of risk diversification (reinsurers laying off risks to reduce exposure in their own portfolios) to inadvertently drive risk concentration (all reinsurers being exposed to the same risks).

Here, we see two potential breakdowns of correlation: (1) Many reinsurers, in an effort to diversify their portfolios by laying off some risk to peers and taking on other risk from the same peers, end up highly correlated to a single major loss event; and (2) if there is a major loss event, this "daisy chain" of dependencies leaves all of those reinsurers financially exposed to any one "weak link."[2] Add these to the traditional correlation risk in the insurance business of having to pay claims on multiple loss events back-to-back, and we can see why Mr. Buffett warned against the hidden leverage in the industry.

2 Mr. Buffett's words from the same letter

This discussion wasn't theoretical – the letter we are citing was written just after 9/11, so the warning was timely and pointed. Many downstream reinsurers were facing significant uncertainty stemming from this mega-catastrophe and were poorly positioned to withstand another, should one happen. Ultimately, their (in)stability was a function of their highly imperfect assessment of the risk of a second catastrophe to their upstream[3] peers on which they were dependent to satisfy claims. They couldn't know the impact for sure unless the second one actually happened, at which point, it would be too late. It's a tough spot to be in: At best, underwriting new business would be hamstrung by the uncertainty; at worst, the downstream reinsurer would be unable to make good on its obligations. [4]

Mr. Buffett's meaning can be applied broadly and accurately to a wide variety of risk decisions. When one doesn't (or can't) know his exposures, the only way he finds out for sure is *after* loss events happen. This, to return to our metaphor, is the tide going out. As it pertains to fixed income, the prevailing dependence on economic factors such as interest rate bets or on aggregate-level exposures such as broad market indices fits the same pattern of aligning one's outcomes with unpredictable risks. That said, it's not that investors won't make some money along the way because, as we pointed out earlier, risk doesn't exist only when it is manifested.

Even more problematic, however, are the markets we have been in, where broad indices appear to succumb to one risk or another, only to snap back faster than they declined. In such an environment, even if an investor saw a few naked swimmers, how would he know if the tide was actually going out once and for all? Would he blindly double down into a terminal downward spiral expecting a FOMO[5] bump to rescue him once again as it did during so many other head fake declines in the last few years?

It is for these very reasons, however, that claims of foresight (i.e. outlooks) are usually misplaced. Whether an outlook is explicitly stated or implied by bets on big picture factors like interest rates or credit spreads, investors can easily be deluded into believing they are outsmarting the markets. In reality, they are probably just getting lucky that the risks they don't know they are taking didn't happen.

At Zeo, we don't set out with a goal of outsmarting anything or anyone.[6] The risk profile we aim to deliver shouldn't be dependent on what others are doing or what's happening in the markets. We simply aim to identify straightforward opportunities to invest in companies we believe will repay their debts. It's a discipline of details which explicitly aims to avoid being dependent on factors beyond our control. We are certainly taking on different risks in the process, as there is no free money, but our goal is to select risks with fewer erratic variables. When combined with our fundamental analysis of each issuer, we believe this process makes it possible for us to deliver the low volatility and consistency we seek for as long as our clients value our work.

3 We use the term upstream to refer to a reinsurer providing reinsurance to another reinsurer. We use the term downstream to refer to the reinsurer who lays off risk to an upstream reinsurer. It's confusing, we know. Yet another reason why leverage risk should be used with extreme caution.

4 Mr. Buffett goes on to argue that, since his company retains their risks, they aren't at risk of this kind of multiplier effect and were able to satisfy claims and underwrite new policies quickly and voluminously after 9/11, which he touted (correctly in our view) as a competitive advantage.

5 FOMO (Fear of Missing Out): a hip description of a psychology attributed to the practice of indiscriminate buying during a market rally to ensure participation if it continues for a prolonged period, the use of which shows our coolness factor, or something

6 Though we won't be upset if we do anyway!

For our money, we prefer to cite a different quote from that same Chairman's Letter in the 2001 Annual Report, also written in support of National Indemnity and it's head at the time, Ajit Jain, who is now Vice Chairman of Insurance Operations for Berkshire Hathaway and a favorite amongst oddsmakers to succeed Mr. Buffett as CEO someday:

> "His extraordinary discipline, of course, does not eliminate losses; it does, however, prevent foolish losses. And that's the key: Just as is the case in investing, insurers produce outstanding long-term results primarily by avoiding dumb decisions, rather than by making brilliant ones."
>
> *Warren Buffett, 2001 Berkshire Hathaway Annual Report*

So to our readers, we offer this thought: It may be prudent to stop watching the tide and aim to invest so you don't have to care if the tide has gone out or not.

Better Lucky Than Skillful? Are You Sure About That?

We've been advised never to lead with performance, but... what the heck.

	Total Return[7]			
	2017-2018 *(Annualized)*	2017 Only	2018 Only	4Q18 Only
Zeo Short Duration Income Fund (ZEOIX)	+2.20%	+2.63%	+1.78%	-0.22%
Short Term High Yield Fund Peer Group[8]	+1.94%	+4.84%	-0.89%	-2.49%
Bloomberg Barclays High Yield Index	+2.60%	+7.50%	-2.08%	-4.53%
Markit iBoxx Leveraged Loan Index	+1.81%	+3.29%	+0.35%	-3.49%
Bloomberg Barclays US Aggregate Bond Index	+1.76%	+3.54%	+0.01%	+1.64%

As one can see, there were several ways investors could get to a two-year total return of around 2% using strategies and asset classes generally considered to be somewhat defensive. What strikes us are the very different stories which come through depending on whether one is looking at the performance over the last two years (blue) or over just the last quarter (red). The fourth quarter of 2018 alone is revealing: The stark differences between indices and funds which all take credit risk in one form or another warrants a peek under the hood.

As may be clear from the theme of this letter, we are bothered by the tendency of investors in the marketplace to use performance data in hindsight to draw potentially dangerous and inaccurate conclusions about the level of risk in their investments. So we set out to try to understand what metrics one might prioritize to proactively mitigate the impact of quarters like

7 Our source for all data in this section is Morningstar Direct. See Disclosures at the end of this letter for definitions of "high yield" and of the indices shown.

8 The Short Term High Yield Fund Peer Group consists of all US Taxable Bond mutual funds which have an Average Effective Duration <= 3.5 years and an Average Credit Rating <= BB, determined using quantitative filters on data in Morningstar Direct. As of 12/31/2018, there were 209 funds in the Short Term High Yield Fund Peer Group, including The Zeo Short Duration Income Fund (ZEOIX).

the last one and without having to time an exit from a risky but well-performing investment. In the process of looking at a lot of different data, we got sucked in by one observation which stood out above all others:

	5y Ann Total Return (2014-2018)	Ave Monthly Up Total Return	Ave Monthly Down Total Return
Bloomberg Barclays High Yield Index	+3.83%	+1.19%	-1.18%

At this point, we'll suggest our readers pause and consider this apparent paradox. How can the index be up nearly 4% per annum when its negative months seemed to almost exactly offset its positive months? The answer lies in another data point:

	# Up Months (2014-2018)	# Down Months (2014-2018)
Bloomberg Barclays High Yield Index	38	22

Put another way, the positive total returns of high yield over the last five years was due mainly to the *number* of up months, not the magnitude of those up months. As the data shows, market declines appear to have had just as high a magnitude of retracement. But, the number of advancing months nearly doubled the number of declining months. It wouldn't take a big change in this mix to affect the performance substantially.

To illustrate the math behind this, consider a theoretical profile of +1% average in up months and -1% average in down months.[9] The simple total returns for different mixes of up and down month frequencies in a five-year period is shown in Table 1. We can see that the impact of even a single month change is not insignificant. Just one fewer up month and one more down month has a theoretical mathematical impact of lowering the five-year total return by approximately -0.40% *per year*.

Let's take this illustration one step further. Table 2 shows the same math for a profile of +0.75% in up months and -0.75% in down

# Up / Down Months	Simple Total Return	Δ from 30/30
20 / 40	-18.4%	-18.1%
21 /39	-16.7%	-16.4%
22 / 38	-15.0%	-14.7%
23 / 37	-13.3%	-13.0%
24 / 36	-11.6%	-11.3%
25 / 35	-9.8%	-9.5%
26 / 34	-8.0%	-7.7%
27 / 33	-6.1%	-5.8%
28 / 32	-4.2%	-3.9%
29 / 31	-2.3%	-2.0%
30 / 30	-0.3%	0.0%
31 / 29	1.7%	2.0%
32 / 28	3.8%	4.1%
33 / 27	5.9%	6.2%
34 / 26	8.0%	8.3%
35 / 25	10.2%	10.5%
36 / 24	12.4%	12.7%
37 / 23	14.7%	15.0%
38 / 22	17.0%	17.3%
39 / 21	19.4%	19.7%
40 / 20	21.8%	22.1%

Table 1: Mathematical Impact of +1% Up / -1% Down Months on Total Return (Source: Zeo Capital Advisors)

9 Readers should note that this illustration is purely a mathematical one. It does not reflect any specific investment or actual performance, and it is not a guarantee of results for any investment which may have a similar profile. Any resemblance to actual observed performance of any asset is unintended and coincidental.

months and for a profile of +0.50% in up months and -0.25% in down months, alongside the original +1%/-1% profile. As expected, the 0.75%/-0.75% scenario appears to simply be a scaled down version of the original scenario. This would be expected if the exposures in the two scenarios are basically the same, with some risk factor variation (such as duration) to reduce the sensitivity in both directions equally. However, the last scenario (+0.50%/-0.25%) shows us something else. If this profile is indeed able to deliver a difference in average monthly returns in up vs. down months, the math shows that this could be impactful. In fact, it could make such a big difference that the actual magnitude of the return in up months could be significantly lower without adversely impacting the long-term outcome. We find this result fascinating for several reasons.

# Up / Down Months	Simple Total Return +1% / -1%	+0.75% / -0.75%	+0.50% / -0.25%
20 / 40	-18.4%	-14.1%	0.0%
21 / 39	-16.7%	-12.8%	0.7%
22 / 38	-15.0%	-11.5%	1.5%
23 / 37	-13.3%	-10.1%	2.2%
24 / 36	-11.6%	-8.8%	3.0%
25 / 35	-9.8%	-7.4%	3.8%
26 / 34	-8.0%	-6.0%	4.6%
27 / 33	-6.1%	-4.6%	5.3%
28 / 32	-4.2%	-3.1%	6.1%
29 / 31	-2.3%	-1.7%	6.9%
30 / 30	-0.3%	-0.2%	7.7%
31 / 29	1.7%	1.3%	8.5%
32 / 28	3.8%	2.9%	9.4%
33 / 27	5.9%	4.4%	10.2%
34 / 26	8.0%	6.0%	11.0%
35 / 25	10.2%	7.6%	11.8%
36 / 24	12.4%	9.2%	12.7%
37 / 23	14.7%	10.9%	13.5%
38 / 22	17.0%	12.6%	14.4%
39 / 21	19.4%	14.3%	15.3%
40/ 20	21.8%	16.0%	16.1%

Table 2: Up/Down Month Total Return Math For Three Scenarios (Source: Zeo Capital Advisors)

First, it shows that the short-term benchmarking of long-term portfolios is misguided. If one were to judge these three scenarios by a single month, quarter or even year, the magnitude of up months has a high likelihood of dominating the results. Over time, however, the differentials between up and down months is more likely to drive the long-term outcomes.

Second, when one allocates to an asset class in the expectation that it will perform well in a given timeframe, it seems the bet being made is essentially a call on the relative frequency of up and down months. If an investor is seeking a risk profile in which she doesn't have to make that call, the monthly differential return could be a valuable metric for building a resilient long-term portfolio regardless of how the mix of up and down months plays out.

Third, the math is the same even if the three profiles are all 100% correlated. In other words, whether all three represent investments in the same asset class or different asset classes, the combination of number of up/down months, magnitude of returns in up/down months and differential between returns in up/down months drive the outcome. In fact, this analysis has the most value when the three profiles are more correlated, as it enables investors to potentially identify strategy and manager skill as the differentiating factors within a given asset class.

So what does this have to do with the performance table we showed at the start of this discussion? We believe this observation can lead us to some very useful metrics for differentiating between apparently similar investments in advance of the tide going out:

	2014-2016 Up/Down Metrics vs. High Yield		
	3y Annual Return	Monthly Return When HY Is Up	Monthly Return When HY Is Down
Zeo Short Duration Income Fund (ZEOIX)	+2.84%	+0.45%	-0.15%
Short Term High Yield Fund Peer Group	+2.80%	+0.76%	-0.70%
Bloomberg Barclays High Yield Index	+4.66%	+1.46%	-1.49%

For the three years (2014-2016) preceding the two shown in the original table (2017-2018), we can see that the performance of Zeo's strategy differs little from that of the peer group. We believe this is in large part due to the favorable balance of up vs. down months in high yield in that time (23 up, 13 down). This view is supported by the monthly performance data, in which the peer group appears to be, on average, simply a scaled down version of high yield, with up/down performance roughly even in both. Our fund, on the other hand, had a meaningful differential between performance in up months for high yield and down months for high yield. Note that all three use high yield bonds as the primary exposure, and two of the three use short duration high yield bonds.

Investors who stop just at total returns, whether for lack of time or more meaningful data, may be forgiven for lumping all short term high yield funds together. But we believe it's important for investors to dive deeper and identify the difference between those which may be nothing more than "high yield lite" and those which are doing something above and beyond. While we will be the first to caveat that past performance is not an indicator of future results, we do feel comfortable in our belief that this data indicates that our strategy has differentiating characteristics more appropriate for long-term fixed income portfolio goals.

We feel the last few months showed clearly the results of the work we do on behalf of our clients. While we take great pride in the performance we have achieved, we take even more pride in the risk profile we have constructed to deliver these results. We believe the two are intertwined. As for what we think is our "above and beyond," regular readers won't need us to even say it. But we will anyway: fundamental credit selection.

Rating Risk and Risky Ratings

Regular readers will recognize our long-standing view that credit ratings and credit risk are, at best, distant cousins: It's not that there isn't any resemblance between the two, but there are many instances where a link is unrecognizable. To date, this line of thinking has come in large part from our view about short duration credit. When a rating agency rates an issuer, there is often little differentiation between nearer-term and longer-term maturities. Even when there is, company-wide factors such as overall leverage and gross margins can weigh more heavily in an agency's rating decision than the impact on creditworthiness of a particular debt issue maturing within the next year or two.

In this case, the distinction between ratings and risk is relatively obvious. An analyst's confidence in a company's ability to repay its debts in one year is likely to differ substantially from her confidence in the same company's ability to repay its longer-term debts, especially for issuers who are typically rated below investment grade. Even so, credit ratings are a particularly notorious area in which investors fall into the trap of thinking in terms of homogenous categories rather than heterogenous securities. In reality, a bond's creditworthiness is varied, comprising many factors, some of which may even offset others. Rating agencies have historically had a reputation for being reactive to credit events, e.g. a downgrade after bad news, and have a spotty track record of proactively predicting credit issues in advance.

So our interest was piqued as we observed a recent focus on rating agencies, this time for what seems to be an attempt at prediction which may prove to be wrong. According to Bloomberg News, the vast majority of the corporate acquisitions from the last five years which they analyzed[10] were financed with debt and pushed the leverage of the acquiring company to levels typical of companies rated high yield. However, the rating agencies allowed those companies to retain investment grade ratings.

In the article, the rating agencies and some companies argued that leverage at a snapshot in time is not a sufficient way to evaluate a company's creditworthiness. We wholeheartedly agree. They also argued that the "issuer's expected deleveraging trajectory" should matter. In other words, if an investment grade rated company tells a rating agency that, despite the ballooning leverage from a large transaction, they *expect* to reduce leverage back to a ratio more fitting of an investment grade company, that weighs heavily in whether a company is allowed to retain its investment grade rating.

We suppose this isn't entirely unreasonable, except for the levels of leverage we are talking about. In many of the cases analyzed, the post-transaction leverage was significantly higher than what was typical for the industries in question *even for the lowest level of investment grade ratings*. Moreover, lowering one's leverage by 2x or 3x in, say, two or three years is a tall order for any company, leaving the rating agencies watching as companies have struggled to deliver on their promises. This has resulted in a glut of BBB companies: According to Bloomberg, 49% of investment grade bonds now have a BBB rating. 25 years ago, that number sat at around 27%. Notably, BBB debt outstanding is larger than the entire high yield debt market according to their data.[11]

What we hear about this is a fear among investors of a massive downgrade wave from these lowest of investment grade bonds down to high yield as companies start missing the goals on which the rating agencies relied on for their generous credit evaluations. It is worth noting that, in our experience, the incentives to retain investment grade ratings is very high, and company CFOs have a remarkable knack for pulling rabbits out of their hats to deliver on their promises

10 The authors looked at fifty of the largest transactions with investment grade acquirers in the five-year timeframe, excluding financials, government-owned acquirers and unrated issuers. *Smith, Molly, and Christopher Cannon. "A $1 Trillion Powder Keg Threatens the Corporate Bond Market." Bloomberg.com. October 11, 2018. https://www.bloomberg.com/graphics/2018-almost-junk-credit-ratings/.*

11 And their data is probably pretty good. Bloomberg purchased the Barclays indices two years ago, thereby acquiring a treasure-trove of some of the most trusted index and aggregate market data in the industry.

despite all evidence to the contrary. So we are not betting all of our chips on one outcome here. But, on the surface, this seems like a concern worthy of attention.

However, where we take issue with this entire line of discussion is in the assumption that the entire category of BBB bonds is, in a word, doomed. Nor do we believe that the entire high yield market is about to receive a wave of bond supply as investment grade portfolios move to sell their newly unacceptable holdings. Don't get us wrong: Our clients will recall that our strategy is designed to take advantage of volatility – a fundamental short duration portfolio benefits from the opportunity to reinvest into higher yield credit, especially if the market selling is indiscriminate with regard to credit quality.

But there is another dynamic at play in our own portfolio which we believe our readers should embrace. The primary reason why we don't lose sleep over the discussion above is because we take a deeply fundamental approach to security selection. As discussed earlier, not all bonds in the same rating category are the same. Yes, if one's investment strategy was to choose bonds by equating credit quality with credit rating, as often happens, then one would find themselves owning BBB bonds on the verge of a downgrade. But that is not our strategy.

Rather, we look for strong credit profiles among our issuers. We look for companies that are generating high levels of cash flow. We look for actual reduction of debt levels. We look for consistency in financial performance and management actions. In other words, we look for companies that our analysis shows are actually deleveraging rather than trust those who have only promised to do so in exchange for a better rating. So when we buy a BBB or even a high yield rated company, our analysis leads us to have a high degree of confidence that the metrics that drive rating actions in our issuers are moving against the downgrade traffic.

We haven't seen a better case study in a long time to highlight why we believe a fundamental approach to security selection is more likely to reveal creditworthiness than blindly trusting credit ratings. That the largest disconnect between credit risk and credit ratings seems to occur in the shorter-term end of the high yield market should come as no surprise given that most investors assume a homogeneous level of risk across high yield debt as an entire asset class. We have been working hard to capitalize on that opportunity for our clients since 2009.

As always, we are available for your questions, comments or feedback. We thank you for your continued support and confidence in our management.

Sincerely,

Venk

Venkatesh Reddy
Chief Investment Officer

ZEO SHORT DURATION INCOME FUND (Ticker: ZEOIX)									
Month End: 31 December 2018	Nav	1M	3M	YTD	1Y	3Y	5Y	10Y	Since Inception (31 May 2011)
Zeo Short Duration Income Fund (Net)	9.84	-0.42%	-0.22%	1.78%	1.78%	2.91%	2.59%	n/a	**2.86%**
Bloomberg Barclays Aggregate		1.84%	1.64%	0.01%	0.01%	2.06%	2.52%	3.48%	**2.55%**
Total Fund Net Assets: $334.9m									

ZEOIX – Total Annual Operating Expense Ratio: 1.04%. 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.

The Bloomberg Barclays U.S. Aggregate: covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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. Zeo Capital Advisors, LLC and Northern Lights Distributors, LLC are not affiliated.

Mutual Funds involve risk including possible loss of principal. 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. As a non-diversified fund, 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.*

This is an actively managed dynamic portfolio. There is no guarantee that this investment will achieve its objectives, goals, generate positive returns, or avoid losses.

DEFINITIONS

High Yield: *A security is typically classified as high yield if it has a rating from Moody's, Fitch or S&P at or below Ba1/BB+/BB+. Ratings higher than these are classified as investment grade.*

Bloomberg Barclays High Yield index: *This index tracks performance for the US dollar-denominated, high yield, fixed-rate corporate bond market.*

Markit iBoxx Leveraged Loan Index: *This index tracks performance for the US dollar-denominated tradable leveraged cash loan market.*

Bloomberg Barclays US Aggregate Bond Index: *This index tracks performance for the US dollar-denominated investment-grade taxable bond market including Treasury, government related, corporates, MBS, ABS and CMBS.*

Each of these indices have their own set of investment characteristics and risks and investors should consider these risks carefully.

Investors are not able to invest directly in the indices and Morningstar categories referenced in this illustration and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices and Morningstar categories are shown for general market comparisons and are not meant to represent the Fund.

Please remember that past performance is not indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Zeo Capital Advisors, LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Zeo Capital Advisors, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Zeo Capital Advisors, LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Zeo Capital Advisors, LLC client, please remember to contact Zeo Capital Advisors, LLC, in writing, if there are any changes in your personal or financial situation or investment objectives so that Zeo Capital Advisors, LLC can review, and if necessary, revisit our previous advice. A copy of Zeo Capital Advisors, LLC's current written disclosure statement discussing our advisory services and fees is available upon request.

3101-NLD-01/28/2019