Counter-Trend Approach

Related Funds

361 Managed Futures Strategy Fund (AMFZX)

361 Global Managed Futures Strategy Fund (AGFZX)

361 CAPITAL®

About 361 Capital

361 Capital is a leading boutique asset manager focused on delivering an array of innovative strategies to institutions, advisors and their clients. Founded in 2001, the Firm specializes in creating distinctive portfolio solutions using behavioral-driven, quantitative methods designed to monetize behavioral biases and market factors in order to pursue consistent alpha for client portfolios.

Innovative Alternative Solutions

Today, the Firm combines its investment skills, experience and focus on transparency with that of other world-class investment managers to offer a family of single-manager alternative mutual funds, including managed futures, global counter-trend, long/short equity, and macro mutual funds.

2001
- **361 Capital** is founded as a boutique investment management firm focused on building alternative investment portfolios for institutions and high-net-worth individuals.

2002
- 361 Capital offers multi-strategy and long/short portfolios to investors.

2007-2008
- Portfolio replication is introduced using ETFs to replicate outperforming hedge fund portfolios, not hedge fund indices.
- First liquid alternative investment portfolio launched.

2009
- Firm strategy evolves to focus on creating client friendly and liquid alternative investment solutions.

2011
- Launch of 361 Managed Futures Strategy Fund.

2012
- Lighthouse Investment Partners, LLC becomes minority owner.

2014
- **Launches three '40 Act mutual funds:**
  - 361 Global Counter-Trend Fund
  - 361 Macro Opportunity Fund
  - 361 Global Long/Short Equity Fund, sub-advised by Analytic Investors.
- Lovell Minnick Partners, LLC becomes a minority owner.
- 361 Capital enters into an advisory agreement with Analytic Investors, LLC.

2016
- Launch of 361 Domestic Long/Short Equity Fund, sub-advised by Analytic Investors.
- 361 Capital acquires BRC Investment Management.

2017
- Launch of 361 U.S. Small Cap Equity Fund.

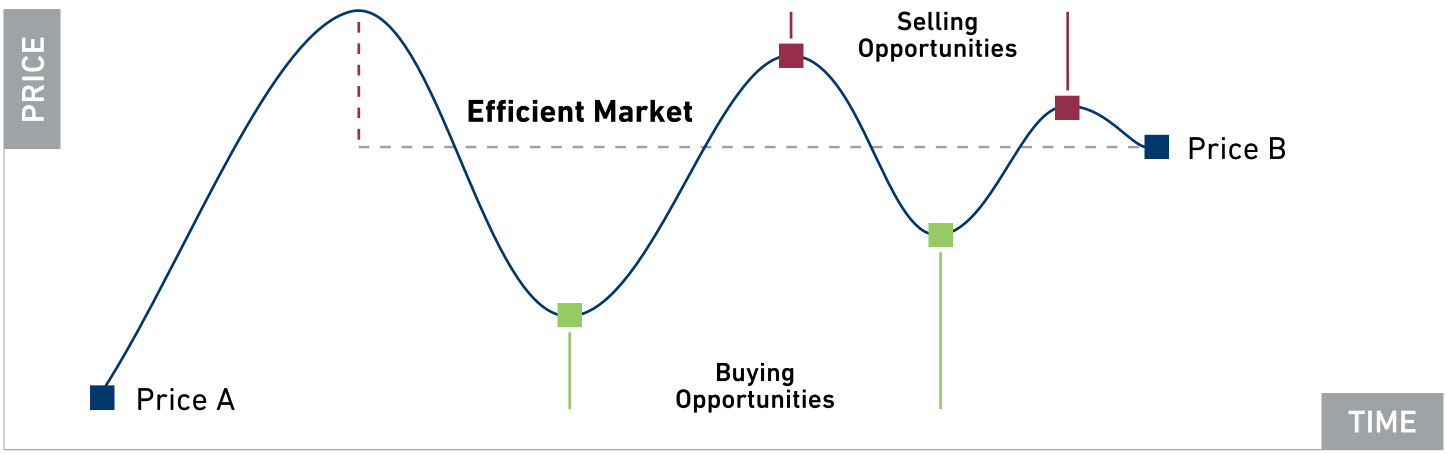
Alternative investments are speculative and involve substantial risks. It is possible that investors may lose some or all of their investment.

Strategy Thesis

Day-to-day market movements are dominated by noise, fear and greed that cause short-term movements, price extremes and volatility. Over the short run, market participants are tasked with deciphering an endless stream of financial data. As such, investors often "buy strength, sell weakness" or create panic by moving into or out of a fast-moving market. This behavior creates the kind of short-term price extremes that counter-trend models seek to capture. In other words, counter-trend strategies attempt to tactically identify when **fear and greed** are present in the market and profit from these emotions by capturing the appropriate inflection points.

Perpetual Cycle

Inefficiency leads to a perpetual cycle of short-term market extremes where prices wander too high or too low and then return to more reasonable levels as participants realize their mistakes.



Background

In general, managed futures strategies may offer benefits to advisors and their clients, including potential returns in multiple market environments and diversification across the broad markets. Traditionally, these strategies have used quantitative modeling to identify performance trends.

There is, however, a niche of managed futures strategies employing counter-trend trading models, which are contrarian in nature to most trend following strategies.

Trend following is the most common trading system employed by managed futures funds. In general, a trend following system aims to invest in the direction of the long-term trend of commodities, interest rates, exchange rates or equities.

Counter-trend following systems offer a systematic, reactionary framework for trading that is potentially as effective as trend following, but different in methodology. The majority of counter-trend models look to sell short-term overbought levels and buy short-term oversold levels. This behavior has allowed counter-trend models to thrive in volatile markets, regardless of direction, and to react quickly to market turning points.

"Counter-trend strategies have worked because they are founded on the theory that markets are not efficient in the short run due to noise, fear and greed and do not require lengthy sustained trends to produce returns."

— Cliff Stanton, CFA, Chief Investment Officer

Process

The use of quantitative models to drive investment decisions is not a new idea, but there is some debate regarding how best to build them. What separates a good model from a bad one? Like Leonardo da Vinci, who said "simplicity is the ultimate sophistication," 361 Capital believes a necessary consideration is the reduction of "moving parts." 361 Capital's counter-trend strategies are sophisticated in their simplicity.

In order to potentially capture the appropriate inflection points in the equity markets, our counter-trend strategies use an intuitive three-step voting system:

Counter-Trend Components

Filter

Filters are used to look at volatility and pricing extremes while examining market trends to determine if favorable market conditions exist.

Measure

If favorable market conditions do exist, the models *measure* various aspects of the recent market behavior and generate directional trading signals (i.e., long, short or cash).

Trade

Once the models determine a *trade* direction, the trade is executed through 361's proprietary trading system.

Our counter-trend strategies attempt to filter for the appropriate environment while assuming that equity markets tend to rise over time. Functionally, the filter component keeps the counter-trend models from becoming overly short biased in an upward-moving market. The models that 361 use specifically measure price movement, changing risk environment and underlying market dynamics. The models assume that: prices revert to a mean in the short term, outsized short-term moves are likely overreactions, and broad-based moves in the same direction across securities also likely indicate an overreaction. The models are run daily and each underlying model "votes" on trade direction. Finally, trades are implemented over a time frame based on liquidity in each market.

Characteristics

As advisors and their clients look to implement a Managed Futures strategy into their portfolios, key characteristics that could potentially be expected of a counter-trend strategy are:

- Counter-trend models have typically been correct on roughly 2/3^{rds} of their trades
- Portfolio trades are short term, usually lasting a few days
- The average size of winning and losing trades tend to be symmetrical over time, but any given time frame could produce asymmetrical results
- These models have the potential to stay in cash for long periods of time

Portfolio Implementation

What to Expect

When building portfolios, perhaps the best equation for advisors and their clients is: **Happiness = Reality – Expectations**. Advisors and their clients recognize that understanding how something should perform—including the range of outcomes that are possible—is critical in staying committed to a long-term portfolio plan.

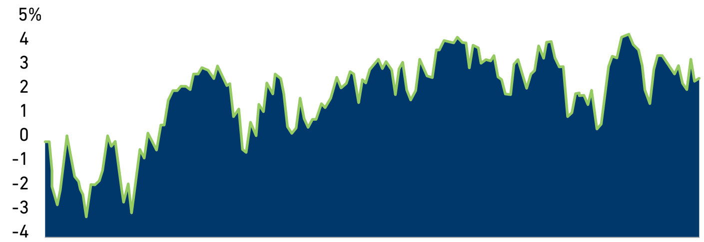
Below are four hypothetical types of equity markets and the expected behavior of counter-trend models in each. Of course, the below is not a guarantee of behavior, but rather a general expectation in different types of observed equity markets.

Steadily Rising Market

Return Expectation: Flat	**Drawdown Potential:** Low
Return Variability: Low	**Frequency of Market:** Common

This type of market is difficult on counter-trend models. While models with proper filters in place should not experience large losses, they will lag significantly relative to the market.

Noisy Market



Return Expectation: Medium	**Drawdown Potential:** Low
Return Variability: Low	**Frequency of Market:** Common

Often perceived as volatile markets, these "choppy" or "noisy" markets are optimal for counter-trend models. Given enough time in these markets, counter-trend models should outperform on a relative basis and perform well on an absolute risk-adjusted basis.

Free-Falling Market

Return Expectation: Negative	**Drawdown Potential:** High
Return Variability: High	**Frequency of Market:** Rare

These types of markets are typically challenging environments for counter-trend as finding "bounces" in this type of market often proves futile. Historically, these types of markets are the least frequently observed of all market types.

Volatile Market

Return Expectation: High	**Drawdown Potential:** High
Return Variability: High	**Frequency of Market:** Rare

These markets often surround "Free-Falling Markets" and while they give counter-trend models the highest return potential of any market type, it's not without increased risk.

Summary

A counter-trend model offers the opportunity to potentially capitalize on volatility created from market "noise." The short-term nature of this strategy, and its contrarian objective, gives it low correlation to broad markets and even to other Managed Futures products. Historically low correlation allows advisors to consider the strategy as a strong diversifier to their portfolio.

For additional insights, call 866.361.1720 or visit 361capital.com.

Connect with 361 Capital | Follow us @361Capital

† Awards: CTA Intelligence US Performance Awards 2014, Best Managed Futures Mutual Fund, http://www.ctaperformanceawards.com. The CTA Intelligence Performance Awards recognize and reward those CTAs (Commodity Trading Advisor) who have successfully outperformed their competitors over the last twelve months, as determined by a panel of expert judges. HFM US Performance Awards 2013, Newcomer – Managed Futures (CTA), http://www.hfmweek.com. The HFMWeek U.S. Performance Awards celebrate those funds that have stood out in the competitive market over the past twelve months, honoring those that have outperformed their peers and demonstrated impressive growth through the volatility of the last year. International Hedge Fund Awards 2014, 40 Act Mutual Fund of the Year – 361 Managed Futures Strategy Fund and Hedge 100, http://www.acquisition-intl.com. Acquisition International's International Fund Awards honor outstanding fund performance and continued organizational excellence within the global financial services industry. "Institutional quality" refers to products that have the potential to pass the due diligence scrutiny of institutional investors due to liquidity, cost on a relative basis to similar strategies, and investment process.

* Effective August 5, 2015, the name of the fund changed from "361 Global Macro Opportunity Fund."
** Effective May 1, 2017, the Fund changed its name from "361 Global Counter-Trend Fund."

Investing involves risk, including possible loss of principal. Futures prices may be very volatile. The small margin required for futures contracts magnifies the effect of market volatility and allows the loss from a contract potentially to exceed the Fund's initial investment. With short contracts, the loss is theoretically unlimited since the appreciation of the underlying asset also is theoretically unlimited. Fund assets not invested in futures are invested primarily in investment-grade bonds. Bond prices generally fall when interest rates rise. Frequent trading by the Fund may reduce returns and increase the number of taxable transactions. Concentration of its portfolio in relatively few issuers may make the Fund more volatile than a diversified fund.

You should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. For a prospectus, or summary prospectus, that contains this and other information about the Funds, call 1-888-736-1227 or visit our website at www.361capital.com. Please read the prospectus or summary prospectus carefully before investing.

The 361 Funds are distributed by IMST Distributors, LLC.