

# 361 Domestic Long/Short Equity Fund Investment Commentary

June 30, 2020

361 CAPITAL<sup>®</sup>

## Investment Philosophy

The 361 Domestic Long/Short Equity Fund seeks to deliver an equity-like return with significantly less variability than the Russell 1000 Index. Based on decades of research on the low beta anomaly by the sub advisor Analytic Investors, the portfolio seeks low beta/high-predicted alpha stocks as long candidates and high beta/low-predicted alpha stocks as short candidates.

## Category Overview

- The Morningstar Long/Short Equity category was up 7.83% for the quarter. Due to the wide array of approaches, exposures and investment universes present in the category, dispersion was wide with the bottom-performing fund down over 11% and the top-performing fund up over 25%. Year-to-date, as of 6/30/20, the category was down 6.0%, while the S&P 500 Index and the MSCI EAFE Index was down 3.1% and 11.1%, respectively.
- Small cap stocks outperformed large cap for the quarter and continue to trail for the year. Growth significantly outperformed value during the quarter. Year-to-date, momentum was the only positive factor in the U.S., while all others were negative with the worst performers being high dividend, small cap and value.
- For the quarter, Consumer Discretionary (32.9%), Technology (30.5%) and Energy (30.5%) were the top performing sectors in the U.S. Utilities (2.7%), Consumer Staples (8.1%) and Financials (12.2%) were the laggards.
- Non-U.S. stocks (14.88%) trailed U.S. stocks (20.5%).

## Manager Comments (2Q20)

- After providing significant downside protection during the sell off in Q1, the Fund trailed the Russell 1000 Index's aggressive rally that characterized the second quarter. Performance is best viewed through three lenses; market environment (i.e., what was the fund exposure to the market and how did the market perform), beta spread (i.e., did high beta stocks lag lower beta stocks) and alpha (i.e., did the stocks we assign higher alphas to outperform those with lower predicted alphas).
- **Environment:** As expected during such a strong positive move, cash was the largest detractor costing the portfolio 5.93%.
- **Beta:** Beta positioning detracted for the quarter as high beta stocks outperformed the overall market by nearly 4%. In particular, April was a difficult month for the portfolio as the performance difference between the highest risk (where we have our largest shorts) and lowest risk stocks (where we have our largest longs) was one of the wider spreads observed in decades.
- **Alpha:** Alpha positioning was additive over the quarter with the highest predicted alpha stocks outperforming the overall market by over 4%.
- Individual stock selection is the result of the combination of the individual stock characteristics that drive both the alpha and beta models. While alpha positioning was additive and beta positioning slightly detracted for the quarter overall, the individual stocks chosen to represent the desired exposure to these factor and beta tilts distracted from returns.

## Highlights

- The Fund has outperformed the broader Morningstar Long/Short Equity category since inception as well as YTD and over the 1- and 3-year time frames.
- Since inception, the Fund has a 50% down capture even while maintaining a 70% net exposure.
- Received a Morningstar Sustainability Rating™ of four globes out of 487 funds in the global category.

## Performance

Total Returns (%) As of 06/30/20*	2Q20	1 Year	3 Year	Since Inception 03/31/16
361 Domestic Long/Short Equity Fund Class I	5.74%	-0.89%	3.75%	3.88%
Russell 1000 Index	21.82%	7.48%	10.64%	12.33%
Morningstar Category	7.83%	-2.25%	1.42%	2.83%

Annual Expense Ratio: Gross 2.77% / Net 2.54% / Net Excluding Dividend & Interest on Short Sales: 1.50%

\*Returns shown over one year are annualized. Returns include the reinvestment of dividends and income.

The Gross Expense Ratio includes dividends and interest expense on short sales of 1.04%. The Net Expense Ratio reflects the fee waiver by the Adviser of 0.23%. See reserve for more information.

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Past returns shown do not guarantee future results. Current performance may be lower or higher. Call 888-736-1227 for the latest month-end returns. Return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than original cost. Other share class performance may vary.

A few short positions contributed to this area of underperformance due to unusually high returns to stocks that were viewed by market participants as potential growth stocks in the current pandemic-driven markets.

- On a sector basis, underweights to Financials and Industrials were the largest contributors and an overweight to Consumer Staples, and underweight to Technology were the largest detractors. In addition to the overall underweight to Technology, individual stock selection within the sector was a significant detractor.
- The aim of the strategy is to provide equity-like exposure, but to do so in a way that minimizes the wide swings that result from exposure to a long-only portfolio. So far, 2020 has been a microcosm of that long-term expectation. The Fund provided significant protection during the sell off in the first quarter, and while it lagged in Q2, it is still outpacing the benchmark for the year—and has done so with significantly less risk.

## Sector Attribution

	ADMZX	Russell 1000 Index	Contribution
Communication Services	6.29	10.32	-0.10
Consumer Discretionary	11.68	10.85	0.25
Consumer Staples	13.11	6.87	-0.90
Energy	-0.05	2.79	-0.41
Financials	4.36	10.67	0.44
Healthcare	10.41	15.03	0.26
Industrials	2.77	8.34	0.38
Information Technology	15.18	25.85	-0.80
Materials	0.76	2.62	-0.12
Real Estate	0.53	3.47	-0.07
Utilities	4.63	3.17	-0.32
Cash	30.32	--	-5.91

### Market Turbulence Resulting from COVID-19

The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the 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](http://www.361capital.com). Please read the prospectus or summary prospectus carefully before investing.

Investing involves risk, including possible loss of principal. The potential loss from a short sale is theoretically unlimited since the appreciation of the underlying asset also is theoretically unlimited. 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. The Fund is new and has a limited operating history. As a result, prospective investors have a short track record on which to base their future investment decisions.

† The Adviser has contractually agreed to maintain the total annual fund operating expenses at stated levels, exclusive of certain expenses such as acquired fund expenses and dividend and interest expenses on short sales until 02/28/21. See Prospectus for additional details.

The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership and includes the reinvestment of dividends. **Morningstar Long/Short Equity Category** is defined as long-short portfolios that hold sizable stakes in both long and short positions in equities and related derivatives. At least 75% of the assets are in equity securities or derivatives.

**Alpha** measures the difference between a fund's actual and expected returns, based on beta, and is generally used as a measure of a manager's added value over a passive strategy. **Beta** measures a fund's sensitivity to market movements. The beta of a market is 1.00 by definition.

The 361 Domestic Long/Short Equity Fund Class I shares was rated 4 stars Overall, 3 stars for the 3-year period among 192 funds and 4 stars for the 5-year period among 139 funds in the Long/Short Equity funds category. Ratings reflect fee waivers in effect; in their absence, ratings may have been lower. Morningstar Ratings™ are calculated for managed products including mutual funds with at least a three-year history. ETFs and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weight is 100% for a three-year rating for 36-59 months of total return. © 2020 Morningstar. All rights reserved

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