

# 361 Global Long/Short Equity Fund Investment Commentary

June 30, 2020

361 CAPITAL<sup>®</sup>

## Investment Philosophy

The 361 Global Long/Short Equity Fund seeks to deliver an equity-like return with significantly less variability than the MSCI World 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%).

## Statistics

|                | Fund  | Category | Index |
|----------------|-------|----------|-------|
| Alpha $\alpha$ | 1.00  | -2.36    | -     |
| Beta           | 0.45  | 0.53     | -     |
| Std Deviation  | 7.87  | 7.28     | 13.32 |
| Sharpe Ratio   | 0.52  | 0.18     | 0.52  |
| Sortino Ratio  | 0.77  | 0.24     | 0.74  |
| Up Capture     | 52.42 | 48.43    | -     |
| Down Capture   | 45.42 | 59.43    | -     |

Data from 02/01/14-06/30/20 for Class I Shares. Statistics calculated using monthly return data relative to MSCI World Index.

## Manager Comments (2Q20)

- After providing significant downside protection during the sell off in Q1, the Fund trailed the MSCI World Index's aggressive rally that characterized the second quarter but did outpace the long/short equity category. 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 5.66%. Net exposure alone accounted for over half of the portfolio lag during the quarter.

## Highlights

- Since inception, the Fund has returned 4.58% vs. the MSCI World Index's 6.69%, with a beta of only 0.45. It has also significantly outperformed the Morningstar Long/Short Equity Category which is up 1.79% over the same time frame.
- Alpha since inception has been a positive 1.00% compared to the category which has a negative alpha of -2.36%.
- The Fund has delivered attractive up/down capture numbers since inception of 52.42% and 45.42%, respectively, comparing favorably to the Long/Short Equity category at 48.43% and 59.43%.

## Performance

| Total Returns (%)<br>As of 06/30/20*            | 2Q20   | 1 Year | 3 Year | 5 Year | Since<br>Inception<br>01/06/14 |
|---|--------|--------|--------|--------|--------------------------------|
| 361 Global<br>Long/Short Equity<br>Fund Class I | 8.38%  | -4.17% | 0.80%  | 3.50%  | 4.58%                          |
| MSCI World Index                                | 19.36% | 2.84%  | 6.70%  | 6.90%  | 6.69%                          |
| Morningstar<br>Category                         | 7.83%  | -2.25% | 1.42%  | 1.50%  | 1.79%                          |

Annual Expense Ratio: Gross 2.42% / Net 2.39% / Net Excluding Dividend & Interest on Short Sales 1.47%

The Gross Expense Ratio includes dividend and interest expense on short sales of 0.92%. The Net Expense Ratio reflects the fee waiver by the Adviser of 0.03%. See reverse for more information.††

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

\*\* 2014 return is since the Fund's inception of 01/06/14. The Analytic Global Long/Short Equity Fund, L.P. ("Predecessor Account") was a limited partnership that commenced operations on 01/06/14 and reorganized into the Fund on 12/12/14. The Fund's objectives, policies, guidelines and restrictions are, in all material respects, equivalent to those of the Predecessor Account. Performance shown prior to 12/12/14 is that of the Predecessor Account and has not been adjusted to reflect the expenses of the Fund's Class I shares, which are lower than the expenses of the Predecessor Account. If Class I expenses were reflected, the Predecessor Account returns would be higher than those shown. However, the Predecessor Account was not registered under the Investment Company Act of 1940 and therefore was not subject to certain restrictions imposed by the Act or the Internal Revenue Code of 1986 on regulated investment companies, if it had been its performance may have been adversely affected.

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.

- **Beta:** Beta positioning also detracted for the quarter as high beta stocks outperformed the overall market. 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 significantly additive over the quarter with the highest predicted alpha stocks outperforming the overall market by over 8%.
- 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. 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, an overweight to Information Technology and underweight to Healthcare were the largest contributors, while our overweight to Utilities and Consumer Staples were the largest detractors.
- On a country basis, our underweight to the U.S. weighed slightly on performance as domestic stocks outperformed non-U.S. stocks. While this was a slight headwind for the quarter, the Fund outperformed the category which is largely comprised of domestic-focused funds.
- 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 though it lagged in Q2, it is still outpacing the benchmark for the year and has done so with significantly less risk.

## Sector Attribution

|                        | AGAZX | MSCI World Index | Contribution |
|------------------------|-------|------------------|--------------|
| Communication Services | 6.40  | 8.89             | 0.07         |
| Consumer Discretionary | 8.18  | 10.73            | -0.19        |
| Consumer Staples       | 11.83 | 8.67             | -0.44        |
| Energy                 | -1.50 | 3.46             | 0.08         |
| Financials             | 4.41  | 12.89            | 0.32         |
| Healthcare             | 6.29  | 14.53            | 0.70         |
| Industrials            | 2.90  | 10.03            | 0.23         |
| Information Technology | 28.49 | 20.00            | 0.86         |
| Materials              | -2.39 | 4.22             | -0.26        |
| Real Estate            | 0.10  | 3.07             | 0.21         |
| Utilities              | 5.88  | 3.50             | -0.55        |
| Cash                   | 29.40 | --               | -5.66        |

### 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. Foreign investment entails additional risk from adverse changes in currency exchange rates, tax regulation, and potential market instability. 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 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 **MSCI World Index** is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index includes reinvestments of dividends, net of foreign withholding taxes. **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. It is not possible to invest directly in an index.

**Beta** measures a fund's sensitivity to market movements. The beta of a market is 1.00 by definition. **Correlation** is a statistical measure of how two securities perform relative to each other. **Standard Deviation** is a statistical measurement of performance fluctuations. Generally, the higher the standard deviation, the greater the expected volatility of returns. **Sharpe Ratio** is a ratio developed to measure risk-adjusted performance. **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. **Down Capture** measures manager's performance in down markets. A down-market is defined as those periods (months or quarters) in which market return is less than 0. Essentially, it measures what percentage of the down-market was captured by the manager. **Up Capture** measures a manager's performance in up markets relative to the market (benchmark) itself.

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