

# 361 Global Long/Short Equity Fund Investment Commentary

March 31, 2018

361 CAPITAL

## Investment Philosophy

The 361 Global Long/Short Equity Fund, sub-advised by Analytic Investors, seeks to deliver equity-like returns with significantly less volatility by taking advantage of the low volatility anomaly (i.e., going long lower volatility stocks and shorting higher volatility stocks) and dynamically allocating to high predicted alpha stocks.

## Market Environment

Uncertainty returned to the global equity markets with a vengeance in the first quarter as the CBOE Volatility Index jumped above 50 in early February. U.S. wage pressures, transportation cost increases and record U.S. Treasury issuance pushed short-term interest rates past equity investors' comfort zone. As a result, both international and U.S. stocks suffered their first quarterly declines in ten quarters. The market retreat accelerated in March, as the White House enacted tariffs on steel and aluminum, resulting in a trade war with China.

## Performance

| Total Returns (%)<br>As of 3/31/2018*        | 1Q18   | 1 Year | 3 Year | Since<br>Inception |
|--|--------|--------|--------|--------------------|
| 361 Global Long/Short<br>Equity Fund Class I | 0.17%  | 10.44% | 7.83%  | 8.35%              |
| MSCI World Index                             | -1.28% | 13.59% | 7.97%  | 7.68%              |
| Morningstar Category                         | -0.89% | 6.67%  | 2.65%  | 2.97%              |

Annual Expense Ratio: Net 2.11% / Gross 2.21%.

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

Includes dividend and interest expense on short sales, acquired fund fees and expenses. When excluded, the net with limitation expense ratio is: 1.50%. 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 2/28/2019. See Prospectus for additional details.

## Manager Comments (1Q18)

- After posting only three daily returns exceeding  $\pm 1\%$  last year, the MSCI World Index experienced eight such days in February, and another six in March (the average over the past decade has been 57 such days per year). Indeed, volatility returned to the markets. The Fund's net exposure (approximately 70%) added 46 basis points to relative performance, as equity markets declined. Having a 30% cash position will always be beneficial in down markets.

## Highlights

- Volatility returned to the markets with the MSCI World Index experiencing 14 days during the first quarter with daily returns exceeding  $\pm 1\%$ —compared to 3 days in all of 2017.
- For the quarter, the 361 Global Long/Short Equity Fund outperformed both the benchmark and its peers.
- The Fund earned an Overall Rating™ of five stars from Morningstar among 191 in the Long/Short Equity Category based on risk-adjusted returns, as of 3/31/2018.
- For investors concerned about increasing volatility, we believe our approach, which focuses on risk management, is well positioned to dampen drawdown risk relative to long-only equity strategies.

## Performance Statistics

|                | Fund  | Category | Index |
|----------------|-------|----------|-------|
| Alpha $\alpha$ | 5.03  | -1.11    | --    |
| Beta           | 0.40  | 0.50     | --    |
| Std Deviation  | 7.07  | 5.31     | 10.08 |
| Sharpe Ratio   | 1.17  | 0.56     | 0.82  |
| Sortino Ratio  | 2.19  | 0.85     | 1.37  |
| Up Capture     | 64.62 | 48.70    | --    |
| Down Capture   | 32.94 | 56.65    | --    |

Data from 2/1/2014-3/31/2018 for Class I Shares. Statistics calculated using monthly return data relative to MSCI World Index.

## Fund Details

|                      |                    |
|----------------------|--------------------|
| Inception            | 1/6/2014           |
| Sub-Advisor          | Analytic Investors |
| Benchmark            | MSCI World Index   |
| Morningstar Category | Long/Short Equity  |

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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.

## Manager Comments (continued)

- The beta profile was also additive as stocks with the highest predicted betas, which the Fund was net short, did underperform three of the other four beta quintiles.
- The Fund's alpha models detracted, as stocks with the highest predicted alphas underperformed, costing the Fund approximately 50 basis points relative to the benchmark. However, stock selection relative to the alpha models was decidedly positive; more than offsetting the alpha model performance.
- Overall, country positioning was beneficial. The underweight to the U.S. was the biggest negative contributor, costing the Fund about 24 basis points. However, that was more than offset by the underweight to the UK, which added about 0.29%.
- Lastly, from a sector perspective, portfolio positioning was favorable in 10 of 11 sectors, with only Consumer Discretionary, which the Fund was underweight, impacting relative performance.
- Since January 2015, the Fund's first full month of operation, the Fund has delivered on its goals of positive alpha (3.86% annualized), a beta target of 0.5 (actual has been 0.37), low downside capture (30.1%), and related, a maximum drawdown that is materially less than that of its benchmark, the MSCI World Index (-4.20% vs -11.96% using monthly returns).
- For investors concerned about rising volatility due in part to high stock valuations, rising interest rates and a steady stream of geopolitical concerns, we believe that our Long/Short Equity approach, which focuses on risk management, is well positioned to dampen drawdown risk relative to long-only equity strategies.

## Portfolio Management



**Harindra de Silva, Ph.D., CFA**

- President of Analytic Investors
- Portfolio Manager
- 31 years of financial industry experience



**Dennis Bein, CFA**

- CIO at Analytic Investors
- Portfolio Manager
- 27 years of financial industry experience



**David Krider, CFA**

- Portfolio Manager
- 15 years of financial industry experience

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 **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.

For the 3 year period, the Fund was rated 5 stars among 191 Long Short Equity Funds. Ratings reflect fee waivers in effect; in their absence, ratings may have been lower. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds 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 weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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