

# 361 Global Managed Futures Strategy Fund Investment Commentary

June 30, 2020

361 CAPITAL®

## Investment Philosophy

The 361 Global Managed Futures Strategy Fund seeks to generate an uncorrelated return by employing a suite of systematic trading models that take positions (long, short, or cash) in equity index futures contracts across the U.S., Europe and Asia.

## Category Overview

- The Morningstar Managed Futures Category was down -2.11% for the quarter. Top performing managers were up over 7%, while the bottom performer was down nearly 7%.
- The category was negative for the quarter, largely driven by certain long currency positions, as well as short positions in equity markets in April and May.
- Many trend-following strategies did well during the sell off in the first quarter due to short equity positions, but that same short positioning weighed on performance during the aggressive reversal in equities.
- Volatility in equity markets (as measured by VXX) decreased substantially during the quarter—starting above 50% and ending June just over 30%.

## Statistics

	Fund	Category
Alpha $\alpha$	-0.51	-0.35
Beta	0.19	0.02
Correlation	0.28	0.04
Std Deviation	8.96	7.24
Sharpe Ratio	0.08	-0.03

Data from 03/01/14-06/30/20 for Class I Shares. Statistics calculated using monthly return data relative to MSCI World Index.

## Manager Comments (2Q20)

- Performance of the Fund can typically be viewed through three lenses: the overall environment for our approach (i.e., how much exposure the Fund had and how markets performed); the speed/'noise' of the market (i.e., did markets move steadily in one direction, or were there multiple negative and positive moves); and market volatility. The following will go through each. A detailed chart is available upon request.
- **Environment:** The Fund's net short exposure of -24.91% for the quarter was a significant headwind in a quarter where equities were up nearly 20%, but the realized positive return highlights the alpha-generating potential of the strategy due to its tactical trading approach.
- **Speed/Noise:** In scenarios where the market is slow (i.e., moving in the same direction for multiple days in a row), our models often struggle, yet we expect to perform well in faster markets (choppy, changing direction). The month of April was a low noise month which was difficult for the Fund and it delivered a negative return. However, both May and June saw an increase in noise and the Fund was able to deliver positive returns, while the category broadly was negative. The Fund outpaced the category by more than 800 bps over May and June which led to the outperformance for the quarter overall.
- **Volatility:** Portfolio volatility and expected return are a function of the volatility of the markets traded; markets with higher volatility will result in a higher magnitude of returns on both the upside and downside. While volatility decreased overall from the beginning of the quarter to the end, there was some variability throughout with June exhibiting higher volatility than May. The Fund delivered its strongest performance of the quarter during June where both noise and volatility were higher.

## Highlights

- Since inception, the Fund has outperformed the Morningstar Managed Futures Category while also providing diversification benefits. The Fund has a correlation under 0.3 to equities and 0.04 to the category.
- Ranked #6 for May in the Stock Index sector based on the data in Barclay Hedge's Managed Futures Database.

## Performance

Total Returns (%) As of 06/30/20*	2Q20	1 Year	3 Year	5 Year	Since Inception 02/12/14
361 Global Managed Futures Strategy Fund Class I	1.71%	-4.11%	-1.50%	1.66%	1.33%
FTSE 3-Month T-Bill Index	0.14%	1.56%	1.72%	1.15%	0.91%
Morningstar Category	-2.11%	-1.70%	0.27%	-1.14%	0.76%

Annual Expense Ratio: Gross 1.82% / Net 1.78%

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

The Gross Expense Ratio includes dividend and interest expense on short sales of 0.04%. The Net Expense Ratio reflects the fee waiver by the Adviser of 0.04%. The Adviser has contractually agreed to waive certain fees and/or pay expenses to limit expenses to 1.74% for Class I and 1.99% for the Investor Class shares as a percent of the average daily net assets until 02/28/21. The Adviser is permitted to seek reimbursement from the fund which is reflected in the Net Expense Ratio. See Prospectus for additional details.

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.

- The Fund outperformed the category during the quarter driven by its strong performance in May and June due to the increased noise in both months. These are the exact type of environments in which counter trend strategies are expected to add value. When markets experience less chop, it is more difficult for counter trend to perform as opportunities to trade are limited. However, when markets are choppy, the Fund can benefit from both long and short positions.
- The quarter highlighted the differentiated return profile provided via counter trend trading when compared to traditional trend following approaches. Trending strategies did well in the first quarter as many were able to short equities, but as that reversed in Q2 and markets were choppy in the latter half of the quarter, trend followers struggled. Conversely, the counter trend approach of the Fund struggled during the initial part of the sell off in Q1 but was able to capitalize on the choppy environment at the end of Q2.
- Looking at individual markets traded in the Fund, trading in Asia led by the Hang Seng Index was the largest contributor, while trading the in U.S. led by the S&P 500 Index was the largest detractor.
- One of the unique signatures of short-term counter trend trading is high hit ratios, i.e., profitable vs. not profitable trades. While any one point in time measurement can have variability, expectations are that the hit ratio for the strategy will range between 55-70%. For the quarter, the Fund's hit ratio was 64.38% and since inception the hit ratio is 62.61%—both numbers are in line with expectations.
- While April was difficult for the strategy considering the net short positioning and incredible rally from market lows in March, the Fund was able to outpace peers due to its performance in choppy market environments that existed in both May and June. These back and forth movements are the exact scenarios the Fund seeks to take advantage of and often occur after market corrections. While the recovery has been strong thus far, much uncertainty remains around increasing infections, the job market and upcoming elections. Historically, uncertain periods have created an environment that is ideal for the Fund's approach.

## Index Attribution

Europe 0.21%		United States -0.98%		Asia 1.92%	
DAX	0.07%	S&P 500	-1.56%	KOSPI 200	0.86%
FTSE MIB	-0.10%	Nasdaq	1.17%	Hang Seng	1.15%
UKK	0.23%	Russell 2000	-0.18%	Nikkei 225	-0.09%
		Dow	-0.41%	Taiwan	0.00%

## Noise Statistics

	% of Time	S&P 500	AGFZX	Category
High	55%	0.01%	0.66%	0.07%
Low	45%	2.06%	-0.52%	0.05%

Average monthly returns (02/28/14-06/30/20)

- Since Fund inception, the S&P 500 has spent about 55% of months in high-noise environments and 45% in low. The goal of the strategy is to provide a positive return when markets are noisy, which is an environment that can be challenging for many traditional and alternative asset classes.
- Our average monthly return when the S&P 500 Index had a noisy month has been a positive 55 bps vs. the S&P 500 which was negative 16 bps over the same time frame.

**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. Futures prices can 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. 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 FTSE 3 Month T-Bill Index** measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three three-month Treasury bill issues. Morningstar Managed Futures Category is defined as funds that primarily trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter. More than 60% of the fund's exposure is invested through derivative securities. These funds obtain exposure primarily through derivatives; the holdings are largely cash instruments. It is not possible to invest directly in an index. **DAX Index** reflects the segment of blue chips admitted to the Prime Standard Segment and comprises the 30 largest and most actively traded companies that are listed at the FWB® Frankfurter Wertpapierbörse. **EURO STOXX 50 Index** is Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries. The Index is licensed to financial institutions to serve as underlying for a wide range of investment products such as Exchange Traded Funds (ETF), Futures and Options and structured products. **CAC 40 Index** is the most widely-used indicator of the Paris market, reflects the performance of the 40 largest equities listed in France, measured by free-float market capitalization and liquidity. **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. **FTSE MIB Index** is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange. The index consists of the 40 most-traded stock classes on the exchange. **S&P 500 Index** is a commonly recognized, market capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance. **NASDAQ 100 Index** measures the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. This index includes companies from a broad range of industries with the exception of those that operate in the financial industry, such as banks and investment companies. **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. **The Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. **KOSPI 200 Index** is a capitalization-weighted index of 200 Korean stocks which make up 93% of the total market value of the Korea Stock Exchange. **Hang Seng Index** is a market capitalization-weighted index of the largest companies that trade on the Hong Kong Exchange. **Nikkei-225 Index** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. **Taiwan Stock Exchange Index (TWSE)** is a weighted index is made up of all the stocks in the Taiwan Stock Exchange and each is given a weight based on its market capitalization. **Standard Deviation** is a statistical measurement of performance fluctuations. Generally, the higher the standard deviation, the greater the expected volatility of returns. **Beta** measures a fund's sensitivity to market movements. The beta of a market is 1.00 by definition. **Sharpe Ratio** is a ratio developed to measure risk-adjusted performance. **Correlation** is a statistical measure of how two securities perform relative to each other. **Maximum Market Exposure** is the maximum levered exposure the model allows in each market traded. **Hit Ratio** is the number of winning active signals divided by the number of total active signals. It does not take into account how much was won or lost, simply if they are profitable.

The 361 Global Managed Futures Strategy Fund was ranked number 6 among 49 funds in the Stock Index category for the month of May 2020 based upon BarclayHedge's monthly net returns in the BarclayHedge performance database. The 361 Funds are distributed by IMST Distributors, LLC.