

# 361 Managed Futures Strategy Fund Investment Commentary

June 30, 2020

361 CAPITAL<sup>®</sup>

## Investment Philosophy

The 361 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 U.S. equity index futures contracts.

## 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 $\alpha$	-1.47	-1.91
Beta	0.17	0.05
Correlation	0.29	0.09
Std Deviation	7.60	6.62
Sharpe Ratio	0.10	-0.19

Data from 01/01/12-06/30/20 for Class I Shares. Statistics calculated using monthly return data relative to S&P 500 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, detailed chart available upon request.
- **Environment:** The Fund's tactical net short exposure of -23.12% for the quarter was a significant headwind as markets rallied following the sell off related to COVID-19.
- **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 which led to positive performance in both May and June while the category broadly was negative.
- **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 its benchmark and the Morningstar Managed Futures Category returning 0.99% vs. 0.69% for the FTSE 3-Month T-Bill Index and -0.74% for the category.
- The Fund has a unique return stream with low correlation to stocks at 0.29, bonds at -0.10% and the Managed Futures category at 0.21, since inception.\*

## Performance

Total Returns (%) As of 06/30/20**	2Q20	1 Year	3 Year	5 Year	Since Inception 12/31/11
361 Managed Futures Strategy Fund I	-1.37%	-9.13%	-2.70%	-3.30%	0.99%
FTSE 3-Month T-Bill Index	0.14%	1.56%	1.72%	1.15%	0.69%
Morningstar Category	-2.11%	-1.70%	0.27%	-1.14%	-0.74%

Annual Expense Ratio: Gross 1.94%.

Gross expense ratio includes acquired fund fees and expenses of 0.03%.

\*Source: Morningstar. Data from 01/01/12 to 06/30/20.

Data is represented by the following sources: Stocks by the S&P 500 Index and Bonds by the Barclays Aggregate Bond Index.

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

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 “V shape” pattern of market moves thus far in 2020 has created a challenging scenario for the counter trend approach employed by the Fund. After the sell off in Q1, the Fund began taking both long and short positions which is beneficial in the back and forth environments that typically follow a market decline. Unfortunately, there was little back and forth movement in April and the Fund maintained numerous short positions that hurt it given the aggressive rise in equities. The choppy environments in both May and June were far more conducive to the Fund’s approach and it was able to outperform the category broadly, however, was not enough to end the quarter with a positive return.
- Trading in the Nasdaq contributed positively for the quarter due to the smaller net short over the quarter. The S&P 500 Index and Russell 2000 Index had the largest short positions which led to the negative contribution for the quarter.
- 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 60.27% and since inception the hit ratio is 61.83%; both numbers are right 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 which may create an environment that is ideal for the Fund’s approach.

## Fund Attribution

	2Q2020
S&P 500 Index	-2.10%
Nasdaq 100 Index	1.65%
Russell 2000 Index	-0.85%
Dow 30 Index	-0.37%
S&P 600 Index	-0.66%
VIX	—

## Noise Statistics

	% of Time	S&P 500	AMFZX	Category
High	51%	0.17%	0.69%	-0.07%
Low	49%	2.13%	-0.47%	-0.02%

Average monthly returns (12/31/11-03/31/20)

- Since inception of the Fund (12/31/11), the S&P 500 Index has spent 51% of months in high noise environments and 49% 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 is a positive 69 bps versus the category being down 7 bps and the S&P 500 being up only 17 bps during that same time periods.

**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 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.

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.

**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. **S&P 600** is an index of small-cap stocks managed by Standard and Poor’s. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements.

**Standard Deviation** is a statistical measurement of performance fluctuations. Generally, the higher the standard deviation, the greater the expected volatility of returns. **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. **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. **VIX** is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market’s expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking, is calculated from both calls and puts, and is a widely used measure of market risk, often referred to as the “investor fear gauge.”

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