

361 U.S. Small Cap Equity Fund Investment Commentary

March 31, 2018

361 CAPITAL®

Investment Philosophy

Based on an institutional strategy with a 10-year track record, the 361 U.S. Small Cap Equity Fund seeks to deliver capital appreciation by utilizing 30 years of academic research, believing security prices are influenced by the opinion of perceived experts and that the behavior of these experts follows a predictable patterns and investing in companies that are likely to be the beneficiaries of future favorable earnings announcements and earnings estimate revisions

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 (%) As of 3/31/2018*	1Q18	1 Year	Since Inception
361 U.S. Small Cap Equity Fund Class I	-3.10%	11.33%	9.15%
Russell 2000 Index	-0.08%	11.79%	11.49%
Morningstar Small Blend Category	-0.93%	9.47%	11.41%

Annual Expense Ratio: Net 0.98% / Gross 8.19%.

*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: 0.99%. See reverse for more information.

Manager Comments (1Q18)

- Despite our consistent ability to populate the portfolio with positive earnings revisions, the first quarter of 2018 was an environment where a variety of factors challenged performance. Given how long we have been managing the strategy, we have witnessed these periods before.
- As is the primary objective of the strategy, we were able to populate a portfolio that experienced more positive earnings revisions than a randomly generated portfolio of similar size. In aggregate, the stocks in the 361 U.S. Small Cap Equity Fund experienced 1,138 net positive revisions versus 321 positive revisions for a portfolio randomly generated from the same universe. The returns to this ability, however, were not rewarded during the quarter, as the companies experienced the most significant increases underperformed.

(Continued on back)

Highlights

- The Russell 2000 was slightly negative, with a 0.08% drop in the quarter. Smaller companies lagged larger capitalized issues within the Russell 2000 Index.
- The 361 U.S. Small Cap Equity Fund underperformed its benchmark for the quarter.
- Market volatility increased significantly, creating increased intra-market correlations, and ultimately, a difficult stock picking environment for actively managed strategies.
- The portfolio experienced 1,138 positive earnings revisions by the sell side, which compares favorably to a similarly sized portfolio generated at random, which achieved only 321 positive revisions.
- Regardless of the market's movements, the portfolio is positioned to seek returns associated with the behavioral events that we believe get rewarded over time. Our research has shown that response rates to these anomalies often increase during longer periods of uncertainty, so we are comfortable staying true to our philosophy through the latter stages of this bull market.

Fund Details

Inception	12/31/2016
Benchmark	Russell 2000 Index
Morningstar Category	Small Blend
Vehicles Available	Separate Account Mutual Fund

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)

- A secondary, but important, part of our process is to populate the portfolio with stocks that will benefit from surprise earnings announcements. While the strategy was able to do so, the return-to-surprise earnings lagged, with those stocks announcing recent strong earnings significantly underperforming those with recent negative announcements. This is a marked shift in the long-term trend, as over time, companies that announce positive surprises should outperform.
- With the severely increased level of market volatility (the Chicago Board Options Exchange Volatility Index, or VIX, increased 177% from February 1 to February 5), intra-market correlations spiked significantly. This tends to make stock picking difficult for active managers and was a headwind for the 361 U.S. Small Cap Equity Fund. For a point of reference, by our calculations, intra-market correlation for the Russell 2000 ended 2017 at 0.32, and by the end of March 2018, had risen to 0.51.
- Given the anomaly we seek to exploit is stock specific, we rely on our ability to source alpha through stock picking. There are, of course, periods where stock picking can be challenging, and the first quarter was one of those times. The Healthcare sector was a meaningful headwind to that end, with 80% of the relative underperformance attributable to poor stock picking within that sector.
- While we do not seek to exploit momentum as a factor, specifically, the very nature of what we do creates a small exposure to this throughout time. Interestingly, for the first quarter, the returns to momentum were strongly negative and that negative performance was market-cap specific (i.e., we did not see the same phenomenon occur in mid- and large-cap spaces, where we manage strategies exploiting the same earnings revision anomaly).

Portfolio Management



John Riddle, CFA

- Co-Chief Investment Officer
- Portfolio Manager
- 37 years of financial industry experience



Mark Jaeger, CFA, CPA

- Managing Director
- Portfolio Manager
- 31 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. Please read the prospectus or summary prospectus carefully before investing.

Investments made in small and mid-capitalization companies may be more volatile and less liquid due to limited resources or product lines and more sensitive to economic factors. The Fund may also invest in exchange-traded funds (ETFs), thus shareholders will bear additional costs and the ETF may not exactly replicate the performance it seeks to track.

[†] 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.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. Morningstar Small Blend Category is defined as small-blend portfolios that favor U.S. firms at the smaller end of the market-capitalization range. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

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. **Correlation** is a statistical measure of how two securities perform relative to each other. **Earnings Revisions** is the count of analyst changes or initiations of company earnings during a given period.

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