Catalyst Funds
Intelligent Alternatives

ADDING ALTERNATIVES

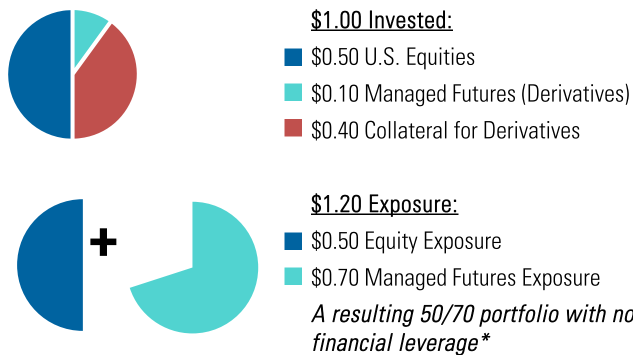
Managed Futures Portfolio Positioning

Throughout 2018, we published research on managed futures and what we believe makes it compelling as the next asset class. As a result of integrating several non-correlated assets and trading strategies into one product, investing in managed futures has historically provided: improved risk-adjusted returns, reduced correlation to traditional asset classes, a more favorable drawdown profile, and crisis alpha. In this report, we shift our focus to selecting a managed futures product, integrating that product into your portfolio, and setting expectations for the risk/return profile of your overall portfolio. In particular, we focus on the use of a blended equity/managed futures product, which allows investors to integrate managed futures into their portfolio, while minimizing the risk of investor psychology getting in the way and derailing the long-term benefits of managed futures.

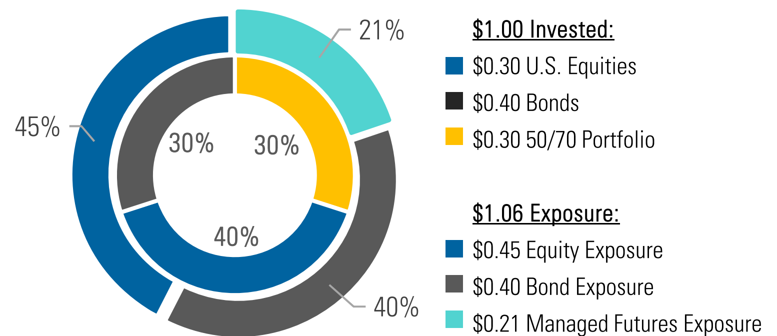
A 30/40/30 Portfolio: Integrating Equity/Managed Futures Blend Products into an Investor's Portfolio

In the middle of a raging bull market, investors may question their investment in a non-correlated product that hasn't put up equity-like returns. By removing a non-correlated asset class like managed futures, which can also generate crisis alpha, investors have positioned their overall portfolio for significantly more risk if equity markets deteriorate. A blended equity/managed futures product offers a potential solution, especially when taking a 30/40/30 portfolio approach.

Managed Futures Product: 50/70 Portfolio Blend

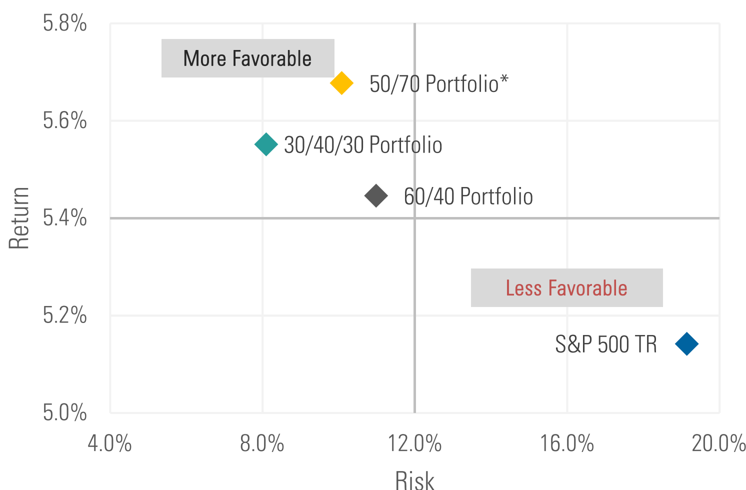


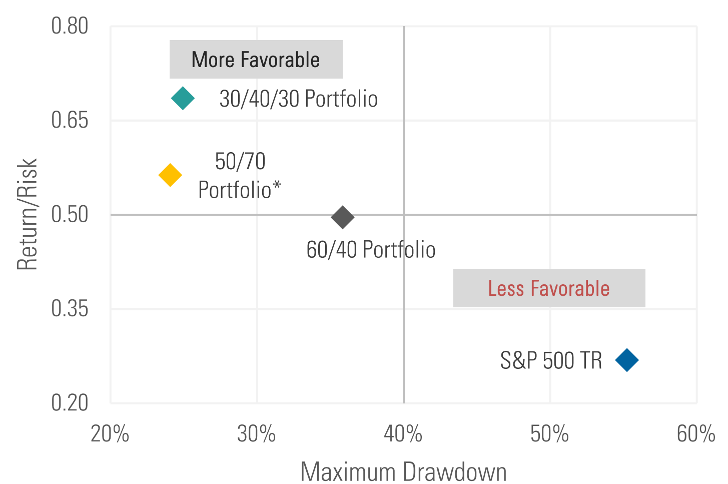
Overall Portfolio: Transition from 60/40 to 30/40/30 Blend



Allocating to Managed Futures Exposure Has Historically Improved Portfolio Return/Risk and Reduced Drawdowns

Based on daily return data from 12/31/1999 to 12/31/2018. Source: Bloomberg LP. Return per risk calculated as annualized return divided by standard deviation.





* For illustrative purposes only. The notional exposure value for managed futures is typically higher than the money invested as a result of the inherent leverage in managed futures products (i.e., $10 may buy $40 in exposure). In terms of dollars invested, a 50/70 Portfolio may look like 50% U.S. Equities, 40% cash and cash equivalents and 10% managed futures investments (100% total). See Page 6 for more on leverage/notional exposure. U.S. Equities (Equity): S&P 500 TR Index. Bonds: Bloomberg Barclays US Aggregate Bond Total Return Index. Managed Futures: SG CTA Index. 60/40 Portfolio: 60% U.S. Equities/40% Bonds. 50/70 Portfolio: 50% Equity Exposure/70% Managed Futures Exposure. 30/40/30 Portfolio: 30% Equity/40% Bonds/30% 50/70 Portfolio for 45% Equity Exposure/40% Bond Exposure/21% Managed Futures Exposure. Blended indices assume an end of month rebalance to the target allocation.

Alternative investments may not be suitable for all investors and an investment in alternative funds is suitable only for investors who can bear the risks associated with the illiquidity of the fund's shares and should be viewed as a long-term investment.

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Why Managed Futures?

- ✓ A long history of attractive risk- adjusted returns
- ✓ Low- to non-correlation to most asset classes
- ✓ Opportunity to decrease overall portfolio volatility
- ✓ History of positive returns in up and down markets
- ✓ Potential for globally diversified exposure in a single investment vehicle
- ✓ Highly regulated and supervised industry and markets

Nobel Memorial Prize winner Harry Markowitz mathematically demonstrated that, by diversifying, an investor gains a structural advantage, including reduced risk at a given level of return and reduced probability of a loss in a given year. By implementing many low- to non-correlated strategies in one investment program, managed futures strategies are positioned with the potential to leverage these benefits of diversification. Managed futures products usually implement trading methods that involve going long or short in futures and commodities diversified across global futures markets (e.g., diversified by trading strategy, geography, and asset class) based on market trends, momentum, systematic mean-reversion, and/or other futures strategies.

Annual Returns: The Potential Benefits of a 30/40/30 Portfolio Approach

Based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

Year	S&P 500 TR	60/40	50/70	30/40/30
2000	-9.10%	-1.00%	2.41%	2.58%
2001	-11.89%	-3.71%	-3.39%	-1.13%
2002	-22.10%	-9.82%	-2.69%	-3.76%
2003	28.68%	18.48%	25.70%	17.65%
2004	10.88%	8.30%	6.25%	6.93%
2005	4.91%	4.00%	4.57%	3.90%
2006	15.79%	11.12%	11.35%	9.83%
2007	5.49%	6.22%	8.02%	6.99%
2008	-37.00%	-22.06%	-11.55%	-13.87%
2009	26.46%	18.40%	9.40%	13.21%
2010	15.06%	12.13%	13.56%	11.56%
2011	2.11%	4.69%	-1.51%	3.50%
2012	16.00%	11.31%	5.43%	8.13%
2013	32.39%	17.56%	14.44%	12.49%
2014	13.69%	10.62%	16.31%	11.38%
2015	1.38%	1.28%	0.97%	1.11%
2016	11.96%	8.31%	3.68%	5.82%
2017	21.83%	14.21%	11.03%	11.08%
2018	-4.38%	-2.35%	-5.35%	-2.70%

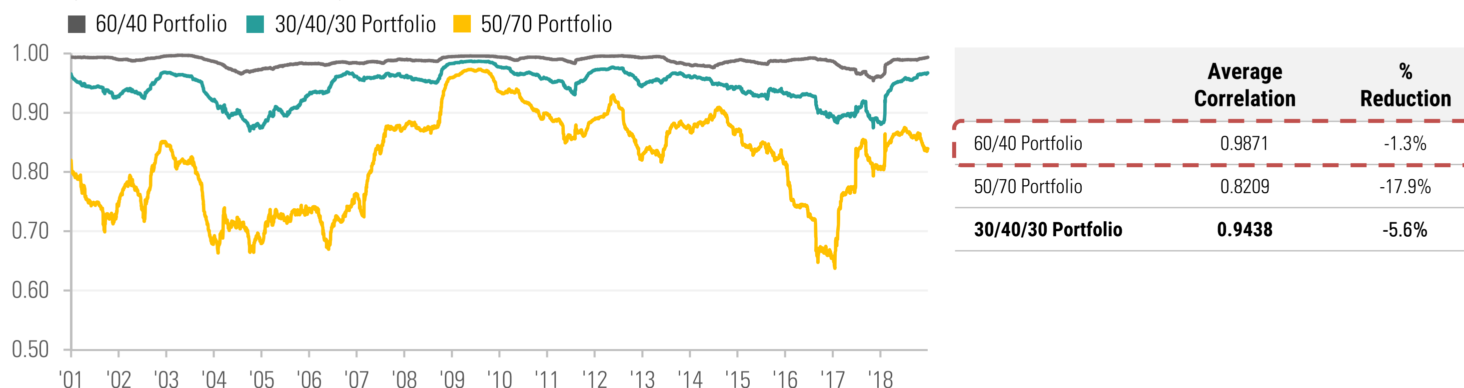
Improved Return Per Risk: The Potential Benefits of a 30/40/30 Overall Portfolio Approach

Based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

	S&P 500 TR	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Worst Drawdown	55.25%	35.84%	24.09%	24.94%
Aggregate Return	147%	160%	170%	164%
Annualized Return	5.14%	5.45%	5.68%	5.55%
Standard Deviation	19.14%	10.99%	10.08%	8.10%
Return Per Risk	0.27	0.50	0.56	0.69

Integrating 50/70 Exposure into a 30/40/30 Portfolio Exhibits Lower Correlation to the S&P 500 than a 60/40 Portfolio

Rolling 1-year correlations based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.



	Average Correlation	% Reduction
60/40 Portfolio	0.9871	-1.3%
50/70 Portfolio	0.8209	-17.9%
30/40/30 Portfolio	**0.9438**	**-5.6%**

Past performance is no guarantee of future results. The referenced indices are shown for general market comparisons and are not meant to represent any fund. Investors cannot directly invest in an index; unmanaged index returns do not reflect any fees, expenses or sales charges. Please note that investing in derivatives (which include options, futures and other transactions) may give rise to leverage risk (which can increase volatility) and can have a significant impact on performance.

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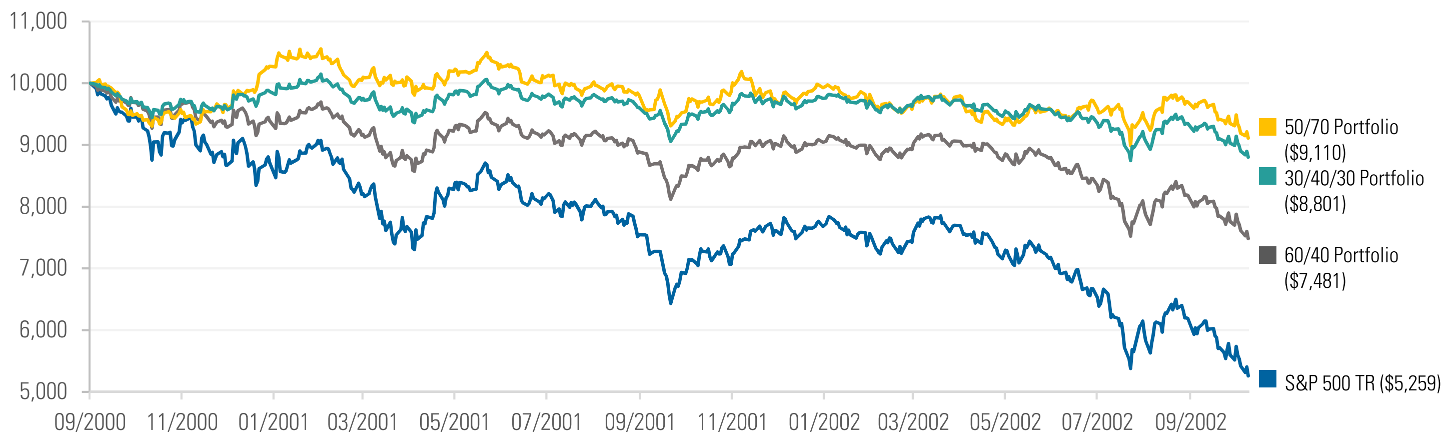
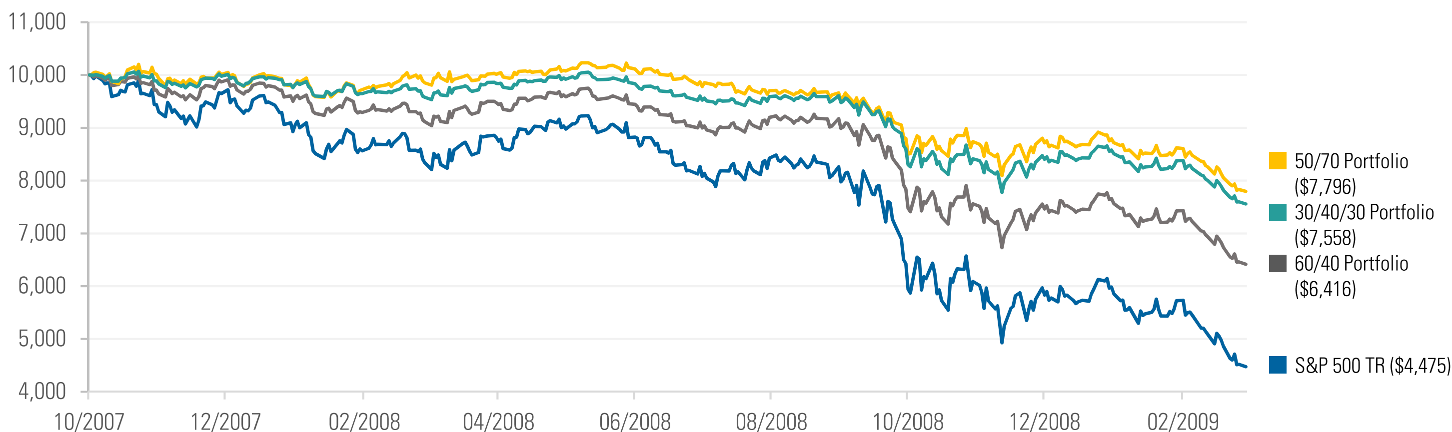
2000-2002 Crisis Alpha: Growth of $10,000 for S&P 500 and 60/40, 50/70 & 30/40/30 Portfolios

Based on daily return data from September 1, 2000 to October 9, 2002. Source: Bloomberg LP.



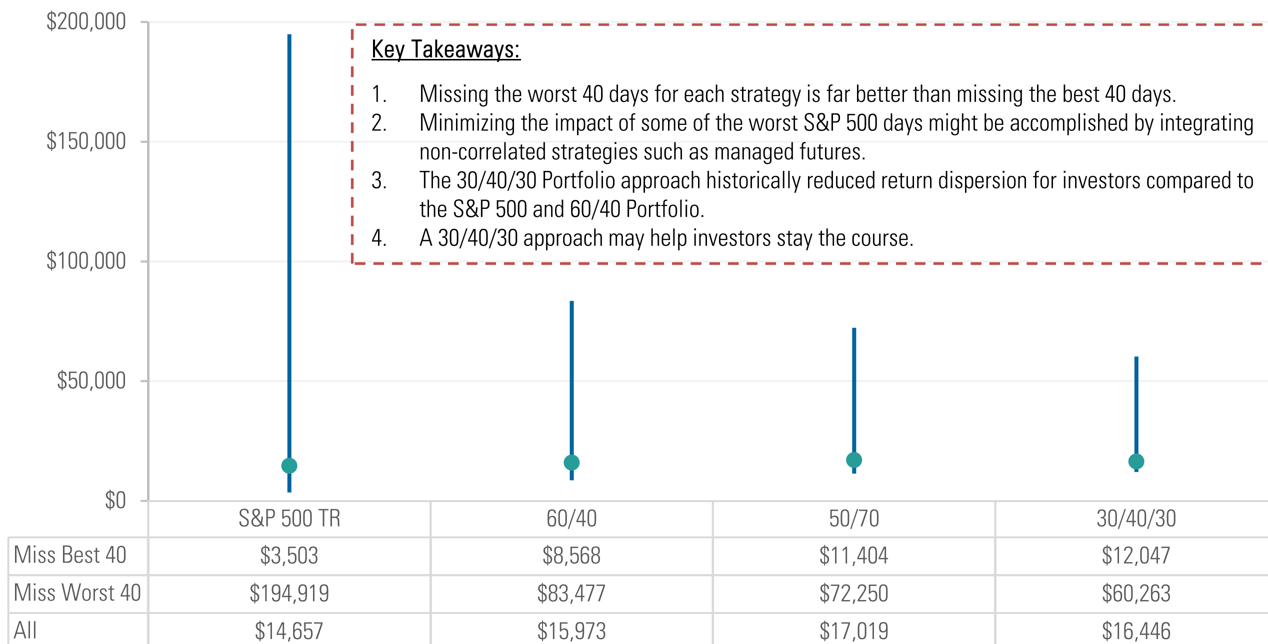
2007-2009 Crisis Alpha: Growth of $10,000 for S&P 500 and 60/40, 50/70 & 30/40/30 Portfolios

Based on daily return data from October 9, 2007 to March 9, 2009. Source: Bloomberg LP.



Less Market Timing Risk: Growth of $10,000 After Missing Best 40 Days versus Missing Worst 40 Days for Given Strategy

Based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.



	S&P 500 TR	60/40	50/70	30/40/30
Miss Best 40	$3,503	$8,568	$11,404	$12,047
Miss Worst 40	$194,919	$83,477	$72,250	$60,263
All	$14,657	$15,973	$17,019	$16,446

Diversification does not ensure profit or prevent losses.

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Managing Risk/Return Expectations for a 30/40/30 Portfolio

In the previous section, we outlined the benefits of a 30/40/30 Portfolio approach, including higher returns, lower volatility, reduced correlation, lower drawdowns, crisis alpha, and less market timing risk. Because even the best investment intentions can be derailed by short-term decision-making, we now shift the focus to setting and managing risk/return expectations for a 30/40/30 Portfolio. We believe the key to long-term success is viewing the 30/40/30 Portfolio as an investment philosophy that you always implement rather than something you temporarily implement to time the market.

In the current market environment, we believe that many investors have put themselves at risk by inappropriately benchmarking performance to what might be unsustainable equity market returns over the past five years. This risk has been compounded by an increasing tendency to analyze performance on a short-term basis.

A key to long-term success with a 30/40/30 Portfolio approach is avoiding the temptation to benchmark short-term returns to equities without careful analysis.

Rolling 3-Month Returns: Consider Positive and Negative Period Performance if Analyzing Short-Term Returns

Rolling 3-Month analyses based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

	S&P 500 TR Index	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Average 3-Month Return	1.66%	1.46%	1.47%	1.41%
Best 3-Month Return	39.68%	22.81%	14.55%	15.78%
Worst 3-Month Return	-41.39%	-26.87%	-16.62%	-19.01%
Average Unprofitable Period Return	-6.48%	-3.62%	-2.87%	-2.39%
Standard Deviation of 3-Month Periods	7.64%	4.55%	4.24%	3.38%
Correlation to S&P 500 TR	1.00	0.99	0.74	0.93
	S&P 500 TR Index	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Average 3-Month Return Before 2013	0.86%	1.13%	1.34%	1.28%
Average 3-Month Return After 2013	3.35%	2.16%	1.77%	1.69%
% Change	*291%*	*92%*	*32%*	*32%*
Average Correlation to S&P 500 Before 2013	1.00	0.99	0.77	0.95
Average Correlation to S&P 500 After 2013	1.00	0.97	0.59	0.83
% Change	*0%*	*-2%*	*-23%*	*-12%*

Recall that over the long-term (December 31, 1999 to December 31, 2018), a 30/40/30 Portfolio generated a 5.55% annualized return versus 5.14% for the S&P 500 TR Index. However, the average 3-month return over the same period shows the S&P 500 TR Index outperforming at 1.66% versus the 30/40/30 Portfolio at 1.41%. In this case, investors that weighed too heavily on short-term returns may have underperformed over the long-term. Even on a short-term basis, the 30/40/30 Portfolio exhibits significantly lower volatility than the S&P 500 TR Index and a 60/40 Portfolio.

Investors that want to consider short-term returns should look at returns over profitable and unprofitable periods to understand the short-term (and long-term) risk that they might be taking by reallocating the portfolio. Both the S&P 500 TR Index and the 60/40 Portfolio have exhibited significantly higher short-term downside risk and worse short-term unprofitable period returns compared to a 30/40/30 Portfolio.

Finally, investors analyzing short-term returns and benchmarking those to the S&P 500 TR Index in the current environment should take into consideration that results over the past five years are significantly skewed and most likely unsustainable. S&P 500 TR and 60/40 Portfolio 3-Month average returns since 2014 are up 291% and 92%, respectively.

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When reviewing rolling returns over longer-term periods, investors may find it easier to stay the course and achieve their long-term investment goals. For example, out of 3,524 rolling 5-year periods since 1999, the 30/40/30 Portfolio only had 9 unprofitable periods versus 72 for the 60/40 Portfolio and 595 for the S&P 500 TR Index.

Rolling 12-Month Returns: S&P 500 TR Index versus 60/40, 50/70, and 30/40/30 Portfolios

Rolling 12-Month analyses based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

	S&P 500 TR Index	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Number of 12-Month Periods	4532	4532	4532	4532
Average 12-Month Return	7.32%	6.17%	6.43%	5.96%
Best 12-Month Return	72.29%	43.95%	30.76%	30.91%
Worst 12-Month Return	-47.50%	-30.39%	-21.73%	-21.73%
Standard Deviation of 12-Month Periods	17.23%	10.10%	8.13%	7.13%
Profitable Periods (%)	75%	79%	82%	83%
Average Profitable Period Return	15.60%	10.43%	9.05%	8.39%
Unprofitable Periods	1141	973	810	767
Unprofitable Periods (%)	25%	21%	18%	17%
Average Unprofitable Period Return	-17.30%	-9.39%	-5.64%	-5.92%

Rolling 3-Year Returns: S&P 500 TR Index versus 60/40, 50/70, and 30/40/30 Portfolios

Rolling 3-Year analyses based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

	S&P 500 TR Index	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Number of 3-Year Periods	4028	4028	4028	4028
Average 3-Year Annualized Return	7.09%	6.28%	6.60%	6.12%
Best 3-Year Annualized Return	28.65%	20.14%	13.26%	15.47%
Worst 3-Year Annualized Return	-17.32%	-8.56%	-2.60%	-4.03%
Standard Deviation of 3-Year Periods	9.59%	5.16%	3.36%	3.19%
Profitable Periods (%)	75%	82%	96%	95%
Average Profitable Period Return (Annualized)	11.83%	8.17%	6.93%	6.48%
Unprofitable Periods	1001	720	168	194
Unprofitable Periods (%)	25%	18%	4%	5%
Average Unprofitable Period Return (Annualized)	-7.26%	-2.42%	-0.94%	-1.03%

Rolling 5-Year Returns: S&P 500 TR Index versus 60/40, 50/70, and 30/40/30 Portfolios

Rolling 5-Year analyses based on daily return data from December 31, 1999 to December 31, 2018. Source: Bloomberg LP.

	S&P 500 TR Index	60/40 Portfolio	50/70 Portfolio	30/40/30 Portfolio
Number of 5-Year Periods	3524	3524	3524	3524
Average 5-Year Annualized Return	7.38%	6.51%	6.63%	6.25%
Best 5-Year Annualized Return	25.17%	17.00%	12.77%	12.66%
Worst 5-Year Annualized Return	-8.35%	-3.38%	-0.23%	-0.93%
Standard Deviation of 5-Year Periods	6.99%	3.70%	2.36%	2.26%
Profitable Periods (%)	83%	98%	100%	100%
Average Profitable Period Return (Annualized)	9.26%	6.66%	6.63%	6.27%
Unprofitable Periods	595	72	1	9
Unprofitable Periods (%)	17%	2%	0%	0%
Average Unprofitable Period Return (Annualized)	-1.84%	-1.00%	-0.23%	-0.50%

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GLOSSARY OF TERMS

Bloomberg Barclays US Aggregate Bond Index: A broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.
Correlation: A statistical measure of how two securities move in relation to each other.
Drawdown: A measure of the peak to valley loss of an investment for a stated time period. An investment does not recover from a drawdown until it surpasses the previous peak.
Leverage/Notional Funding: Notional funding applies leverage to purchase managed futures. Since the notionally funded amount is not borrowed or deposited, this leverage does not incur additional cost. While notional funding is attractive, investors should be aware of its increased volatility; all gains and losses are multiplied proportional to the level of funding provided.
S&P 500 Index: A market capitalization-weighted index that is used to represent the U.S. large-cap stock market. The Total Return (TR) Index reflects the effects of dividend reinvestment.
SG CTA Index: An equal-weighted index that calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment. SG CTA Index used in analysis when daily returns required.
Standard Deviation: A statistical measure of how consistent returns are over time; a higher standard deviation indicates historically more volatility.

IMPORTANT RISK DISCLOSURES

As with any investment strategy, there is no guarantee that an asset class will continue to perform similarly in the future. Investment markets are unpredictable and there will be certain market conditions where a strategy will not meet its investment objective and will lose money. Returns will vary and you could lose money investing in managed futures and those losses could be significant. Please note that investing in derivatives (which include options, futures and other transactions) may give rise to leverage risk (which can increase volatility), and can have a significant impact on performance. Investing in the commodities markets may subject managed futures to greater volatility than investments in traditional securities. Using derivatives like futures and options to increase long and short exposure creates leverage, which can magnify potential for gain or loss and, therefore, amplify the effects of market volatility.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Catalyst Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 866-447-4228 or at www.CatalystMF.com. The prospectus should be read carefully before investing. The Catalyst Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Catalyst Capital Advisors LLC is not affiliated with Northern Lights Distributors, LLC.

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ABOUT CATALYST FUNDS

Catalyst Funds is a distinct alternative manager. Since our founding in 2006, we understood that the market did not need another traditional family of mutual funds. We strive to provide innovative strategies to support financial advisors and their clients in meeting the challenges of an ever-changing global market environment.

Catalyst offers a broad range of distinct, “intelligent alternative” funds. Our specialized strategies seek to address the needs of investors, including generating alpha, reducing volatility, limiting tail risk, mitigating interest rate risk and generating income. We strive to be “ahead of the curve” in exploiting emerging areas of opportunity to assist our clients in achieving their long-term investment goals.

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