



# Catalyst Insider Income Fund

IIXAX, IIXCX, IIXIX



Rated 5-stars by Morningstar for the period ending 12/31/2023, based on 5-year risk-adjusted returns, out of 495 funds in the Short-Term Bond category

**The potential benefits of insider buying and remaining short duration across different fixed income environments**

## The Catalyst Insider Income Fund

The Catalyst Insider Income Fund (IIXIX) seeks to offer investors an opportunity to invest in short-term U.S. corporate bonds issued by corporations whose executives are purchasing shares of the company's common stock. The Fund's objective is to achieve high current income with low interest rate sensitivity. The Fund uses public information that is filed with the Securities and Exchange Commission ("SEC") on corporate insider buying activity for its investment decisions. Our research and quantitative back-testing of insider trading data over long periods of time have resulted in the development of a proprietary method of analyzing activity that we believe can substantially reduce the likelihood of default and bankruptcy. The underlying thesis is that corporate insiders know more about the prospects of their company than anybody else and would not take a stake in the equity of their company if the company were in jeopardy of declaring bankruptcy.

### Primary Goals & Key Reasons to Invest

- **Insider-Driven:** The Fund invests in short-term U.S. corporate bonds issued by companies whose corporate insiders (CEO, CFO, directors, etc.) are purchasing their own company's stock. We believe corporate insiders understand their own firm better than any outsider possibly could.
- **Seeks Reduced Credit Risk:** Our historical research demonstrates that companies with insider buying experience substantially lower default and bankruptcy rates. The intuition is that corporate insiders would not take an equity stake if the company were in jeopardy of bankruptcy.
- **Low Interest Rate Sensitivity:** We seek to reduce exposure to interest rate risk by holding a portfolio of corporate bonds with an average modified duration less than three and a half years.

### Investment Methodology

Our investment process begins by identifying insider driven activity where corporate insiders (CEO, CFO, directors, etc.) are purchasing their own company's stock. We evaluate these transactions using a proprietary multi-factor method that analyzes the following: position in the company, number of insiders buying, amount purchased, transaction type (open market vs compensation based), and past behavior. Next, we use a quantitative screen to identify corporate bonds that meet our credit quality standards and maturity range. Finally, bonds that pass our screening process undergo a fundamental review for possible inclusion in the portfolio. This includes a deep review of the company's financial statements, credit metrics, business model and bond-specific characteristics including yield and duration. We hold a majority of the portfolio in investment grade (rated BBB or higher by Standard & Poor's Rating Services or the equivalent by Moody's Investor Service, Inc. or Fitch, Inc.) corporate bonds with an average effective maturity less than 4 years and an average modified duration less than 3.5. This investment methodology is supported by IIXIX not having any defaults since its inception, leading to a five-star Morningstar rating.

#### Step 1.

Identify and Analyze Insider Activity within Publicly Traded Companies



#### Step 2.

Quantitative Screen to Target Short-Term Bonds within our Insider Universe



#### Step 3.

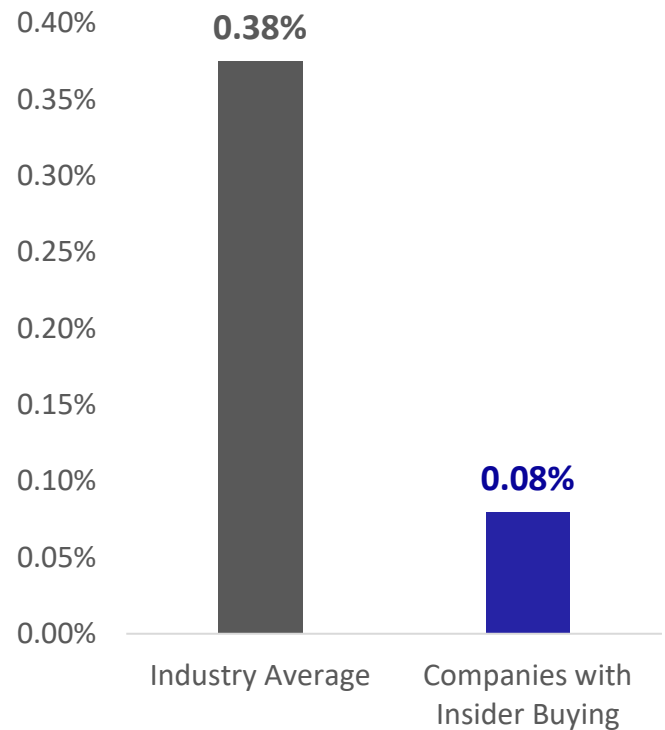
Deep Fundamental Review of Balance Sheet, Credit Metrics and Business Model

## The Case for Insider Buying

The inconsistency of credit rating agencies and minimal material change from Congressional oversight and accountability leads us to believe that an alternative source of information is essential in selecting quality corporate short-term bonds. Therefore, our implementation of insider driven activity has been vital in providing this essential information. We believe that insider transactions reveal insightful information on future changes in the prices of stocks and the overall underlying credit quality of corporate bonds. In addition to insider buying’s predictive nature of future corporate balance sheet strength and improving stock prices, insider buying has also been an accurate estimate of bond market changes exerting a stronger impact on bond returns than stock returns. Research shows that companies with insider buying experience substantially lower default and bankruptcy rates on the intuition that corporate insiders would not take an equity stake if the company were in jeopardy of bankruptcy. Internal research found a 79% reduction in default for short-term bonds when insider buying is present. Furthermore, analysis showed that on average only 0.08% of stocks with insider buying have a one-year bankruptcy rate compared to the industry average one-year bankruptcy rate of 0.375%.

### Bankruptcy Rate Comparison

Average one-year bankruptcy rate for companies with insider buying compared to the industry average one-year bankruptcy rate. Data from December 2004 – November 2017  
Source: Catalyst Capital Advisors LLC



## Consistency Across Different Fixed Income Environments

The 5-Star rated IIXIX has consistently been in the top decile rank in the Short-Term Bond Category

IIXIX	3-Year	5-Year
Percentile Rank in the Short-Term Bond Category (CS)	Top 17% out of 535 funds in the category	Top 6% out of 495 funds in the category
Morningstar Category Rating	★★★★★	★★★★★
IIX I-Share	0.93%	2.98%
Bloomberg U.S. Government/Credit 1-3 Year TR Index	0.09%	1.51%
Short-Term Bond Category (CS)	0.14%	1.88%
+/- Bloomberg U.S. Government/Credit 1-3 Year TR Index	0.84%	1.47%
+/- Short-Term Bond Category (CS)	0.79%	1.10%

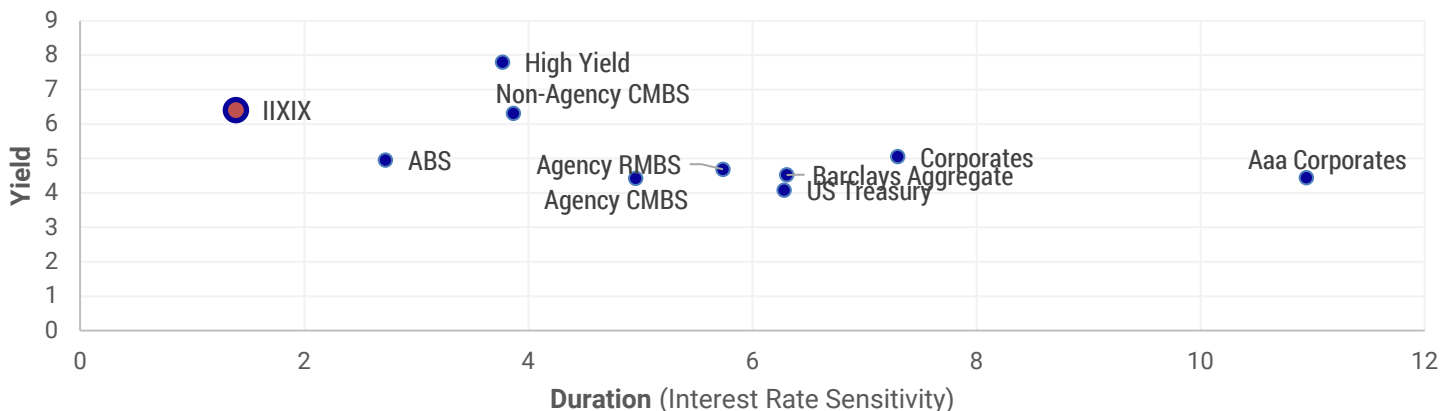
Source: Morningstar. Data as of 12/31/2023.

Past performance is no guarantee of future results. There is no guarantee that any asset class will continue to perform similarly in the future. 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.

# Short-Duration Results: Catalyst Insider Income Fund (IIXIX)

## Yield and Duration Analysis

We believe that IIXIX offers the best balance between yield and duration without taking the excessive credit risk that exists in the high yield asset class.



Source: Bloomberg LP and Catalyst Capital Advisors. Corporates, High Yield, Aaa Corporates, Agency CMBS, Non-Agency CMBS, Bloomberg Aggregate, Agency RMBS, US Treasury, and ABS represented by Bloomberg US Corporate TR Index, Bloomberg US Corporate High Yield TR Index, Bloomberg Aaa Corporate TR Index, Bloomberg US Agency CMBS Agg Eligible TR Index, Bloomberg Non-Agency CMBS TR Index, Bloomberg US Agg Total Return Index, Bloomberg US MBS Index TR, Bloomberg US Treasury TR Index, and Bloomberg US Agg ABS TR Index. Data as of 12/31/2023. Yield and duration data from Bloomberg with yield presented as yield-to-maturity (YTM) and duration reported as modified duration.

## Seeking High Current Income with Low Interest Rate Sensitivity

30-Day SEC Yields	Subsidized	Non-Subsidized
Class I	5.23%	4.83%
Class A	4.74%	4.36%
Class C	4.24%	3.83%

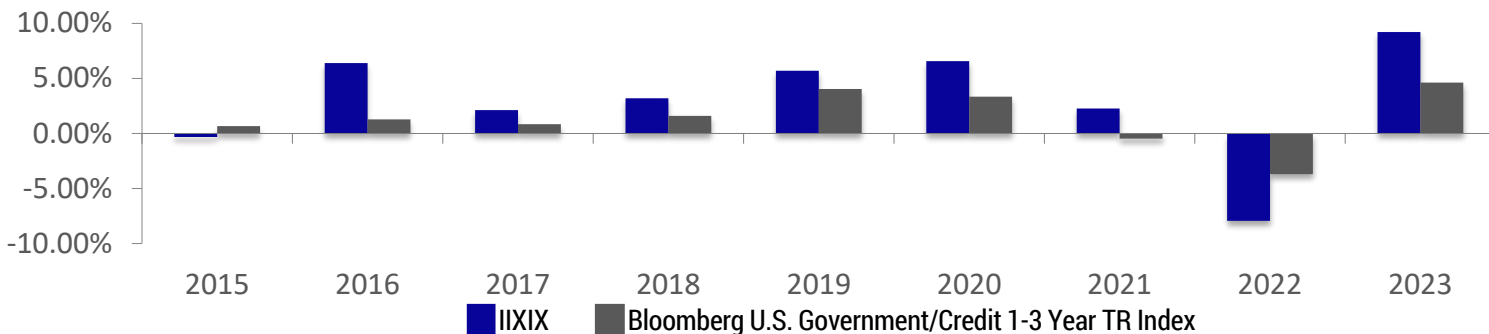
Interest Rate Sensitivity	
Wtd. Average Maturity Date	7/20/2025
Wtd. Average Effective Maturity	1.55
Wtd. Average Modified Duration	1.39

SEC Yield calculated according to SEC form N-1A. The Advisor and the Fund have entered into an expense limitation agreement. The Fund's SEC Yield without expense limitation is 4.83% (I), 4.36% (A) and 3.83% (C) as of 12/31/2023.

Data as of 12/31/2023.

## Calendar Year Returns IIXIX VS. Bloomberg U.S. Government/Credit 1-3 Year TR Index

Data as of 12/31/2023



The Fund's maximum sales charge for Class "A" shares is 4.75%. Gross expense ratios for the fiscal year were 1.39%, 2.14%, and 1.14% for Class A, C and I shares respectively. Investments in mutual funds involve risks. Performance is historic and does not guarantee future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month end performance information or the Fund's prospectus please call the Fund, toll free at 1-866-447-4228. You can also obtain a prospectus at [www.CatalystMF.com](http://www.CatalystMF.com).

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## Historical Trade Example – Twitter Inc.

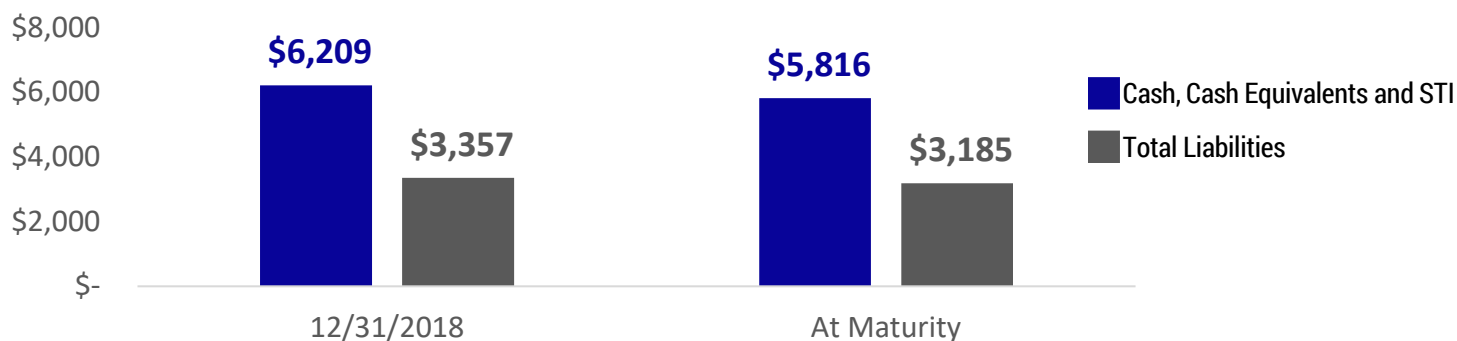
A good historical example that illustrates the value of our investment process is Twitter. The company’s former CEO, Jack Dorsey, had purchased over \$16 million of Twitter stock since 2017. If we had historically evaluated Twitter’s 2019 maturity bonds solely based on credit ratings, we would not have invested in them because they had a BB- rating by Standard & Poor’s (highly speculative). Upon further inspection, we noticed the BB- rating that Standard & Poor’s gave this bond was issued on 11/13/2014. We can understand why Standard & Poor’s would issue the BB- rating in 2014; Twitter was not profitable, had negative cash flow, and there were questions about the monetization of the Twitter platform. However, by the end of 2018 we felt that this rating was no longer reflective of Twitter’s credit risk as the company had become profitable, was generating plenty of free cash flow, and had a fortress balance sheet. Twitter reported in Q4 2018 cash and short-term investments of \$6.209 billion versus total liabilities of \$3.357 billion. What was particularly compelling about Twitter’s 2019 bond as an investment is that it had a yield to maturity of over 4.25% and matured within one year. We prefer to own the bonds of companies with dramatic excess liquidity and we felt the market drastically overestimated the credit risk associated with these Twitter bonds due to the stale BB- credit rating.

### TWTR Summary Investment Thesis

- Significant insider buying from several key executives, including former company CEO Jack Dorsey
- Stale credit rating of BB- from Standard & Poor’s when the bond was originally issued in 2014
- Overcapitalized Balance Sheet with Cash, Cash Equivalents and STI greater than Total Liabilities as of Q4 2018
- Attractive yield of 4.25% with maturity of under one year

### Fortress Balance Sheet – Twitter’s Cash vs. Total Liabilities

TWTR’s cash, cash equivalents and STI (short-term investments) and total liabilities as of 12/31/2018 and 9/30/2019 (closest quarterly date to maturity of 9/15/2019).



Insider Transactions				
Insider (Position)	Type	Shares	Value	Date
Jack Dorsey (CEO)	BUY	540.0K	\$9.5M	Apr-28-17
Jack Dorsey (CEO)	BUY	426.0K	\$7.0M	Feb-14-17
Omid Kordestani (Executive)	BUY	122.3K	\$2.0M	Feb-16-16
Anthony Noto (CFO)	BUY	15.5K	\$249.2K	Feb-16-16
Anthony Noto (CFO)	BUY	5.2K	\$152.2K	Nov-02-15
Peter L. S. Currie (Director)	BUY	9.2K	248.7K	Aug-07-15
Jack Dorsey (CEO)	BUY	31.6K	\$875.0K	Aug-07-15
Peter H. Fenton (Director)	BUY	7.3K	\$201.3K	Aug-07-15
Anthony Noto (CFO)	BUY	7.0K	\$199.3K	Aug-06-15
Anthony Noto (CFO)	BUY	3.0K	\$109.9K	May-26-15
Anthony Noto (CFO)	BUY	3.0K	\$110.2K	May-20-15
Anthony Noto (CFO)	BUY	6.7K	\$252.6K	May-05-15

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## Performance (%): December 31, 2023

Annualized if greater than a year

Share Class/Benchmark	YTD	1 Year	3 Years	5 Years	Since Inception*
Class I	9.22	9.22	0.93	2.98	1.94
Class A	8.95	8.95	0.67	2.73	1.66
Class C	8.15	8.15	-0.08	1.98	0.94
Bloomberg 1-3 Yr US Govt/Credit	4.61	4.61	0.09	1.51	1.29
Class A w/ Sales Charge	3.78	3.78	-0.95	1.72	1.14

\*Inception: 7/29/2014

## Important Risk Considerations

*Investing in the Fund carries certain risks. The value of the Fund may decrease in response to the activities and financial prospects of an individual security in the Fund's portfolio. The Fund is non-diversified and may invest a greater percentage of its assets in a particular issue and may own fewer securities than other mutual funds. The Fund may invest in lower quality, non-investment grade bonds. Non-investment grade corporate bonds are those rated Ba or lower by Moody's or BB or lower by S&P (also known as "junk" bonds). Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality of the issuer. Interest rate risk is the risk that bond prices overall, including the prices of securities held by the Fund, will decline over short or even long periods of time due to rising interest rates. Bonds with longer maturities tend to be more sensitive to interest rates than bonds with shorter maturities. These factors may affect the value of your investment.*

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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.catalystmutualfunds.com](http://www.catalystmutualfunds.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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