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Intelligent Alternatives

ADDING ALTERNATIVES

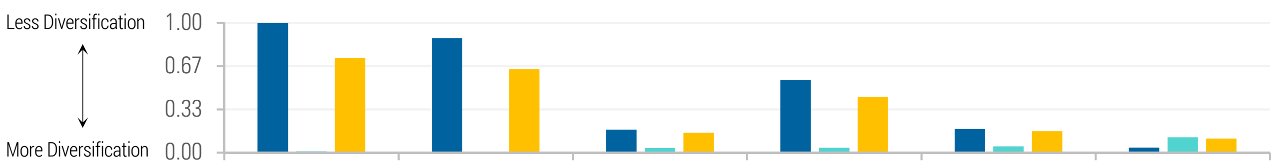
The Next Asset Class: Managed Futures

Traditionally, there have been five major asset classes in which to invest for long-term objectives such as retirement, paying for college, leaving a legacy, etc. After an era of unprecedented central bank intervention, there are a number of potential risk factors (e.g., trade war and other political risks, rising interest rates, etc.) that could trigger a potential drawdown in the equity markets. Given today's investment environment, how can investors de-risk a portfolio with these five asset classes?

- Stocks are at all-time highs with 2018's gains coming from only a handful of stocks
- Bonds have already suffered as interest rates rise from all-time lows
- Real Estate is also at all-time highs with liquidity concerns and a history of significant drawdowns
- Gold may have already peaked in 2011 during quantitative easing (QE)
- Cash invested in bank deposits may require 30+ years to double the investment

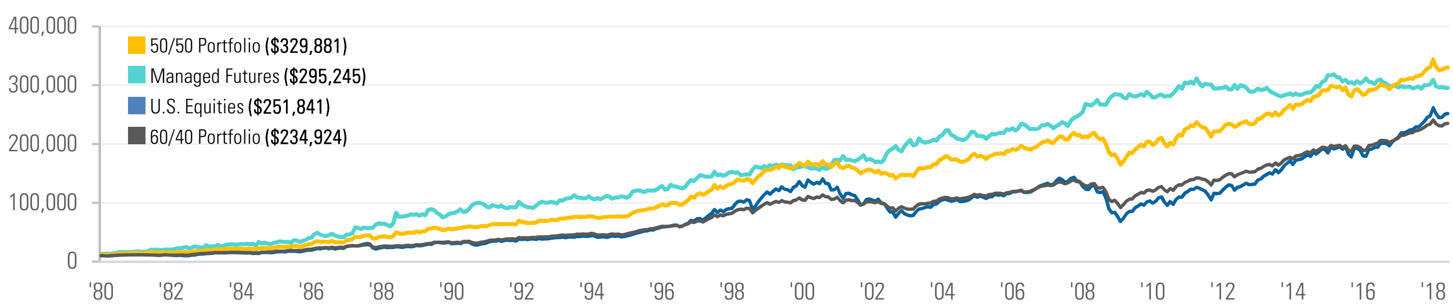
We believe that managed futures exposure could be effective in de-risking a portfolio in today's environment. Historically, implementing managed futures exposure into a portfolio may have resulted in higher returns with reduced drawdowns and lower volatility.

Managed Futures Have Historically Delivered Diversified Returns Uncorrelated to Most Major Markets

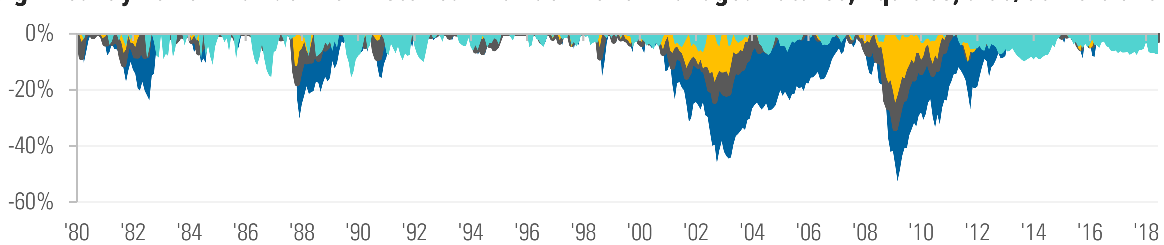


	U.S. Equities	World Stocks	Bonds	Equity REITs	Commodities	Gold
U.S. Equities	1.00	0.88	0.18	0.56	0.18	0.04
Managed Futures	0.01	0.01	0.04	0.04	0.05	0.12
50/50 Portfolio	0.73	0.64	0.15	0.43	0.16	0.11

Attractive Risk-Adjusted Returns: Growth of $10,000 for Managed Futures, Equities, a 50/50 Portfolio and a 60/40 Portfolio



Significantly Lower Drawdowns: Historical Drawdowns for Managed Futures, Equities, a 50/50 Portfolio and a 60/40 Portfolio



Worst Drawdown since 1980

- 50/50 Portfolio (-24.77%)
- Managed Futures (-15.66%)
- U.S. Equities (-52.56%)
- 60/40 Portfolio (-33.85%)

Historical correlations, returns and drawdowns based on monthly return data for BarclayHedge CTA Index (Managed Futures), S&P 500 Price Index (U.S. Equities), 50% U.S. Equities/50% Managed Futures (50/50 Portfolio; rebalanced monthly), MSCI World Index (World Stocks), Bloomberg Barclays US Aggregate Bond Total Return Index (Bonds), FTSE NAREIT All Equity REITS TR Index (Equity REITs), S&P GSCI TR Index (Commodities), LBMA Gold Price PM (Gold), and 60% U.S. Equities/40% Bonds (60/40 Portfolio; rebalanced monthly) from January 1980 to June 2018. Source: Bloomberg LP.

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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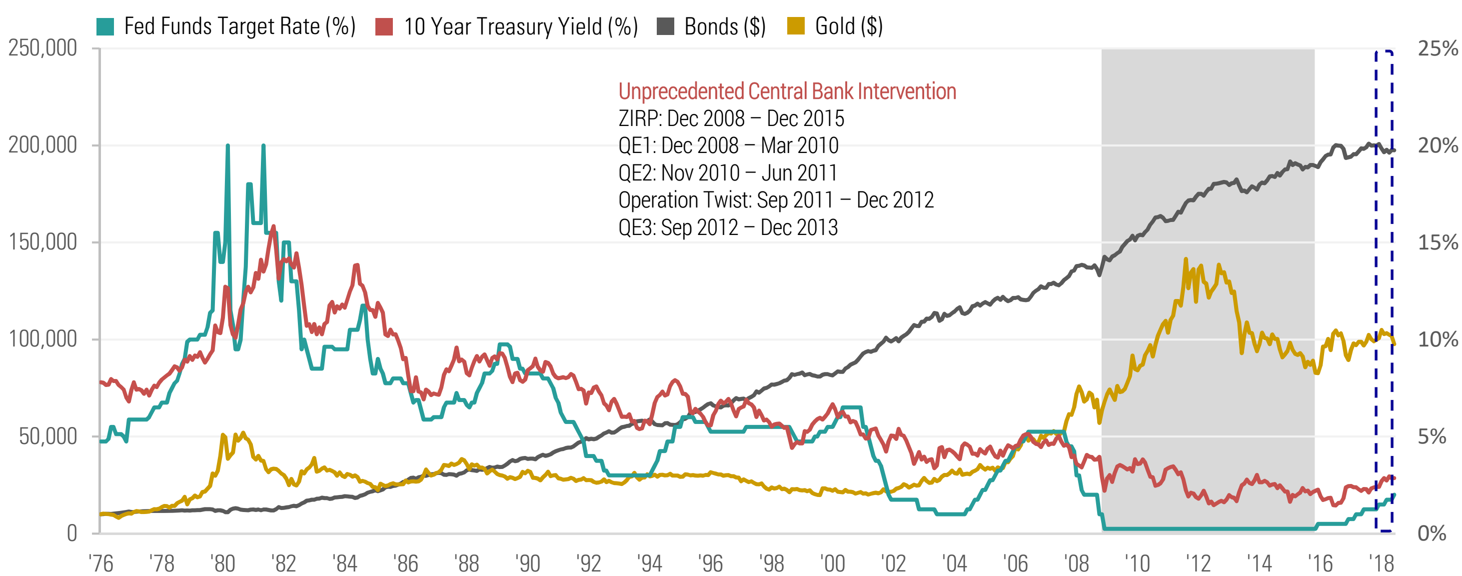
Consider De-Risking with the Next Asset Class

Historically, assets such as bonds or gold provided a buffer during periods of equity market turmoil. That was before the era of massive central bank intervention throughout the world. In response to the financial crisis of 2008, the Federal Reserve implemented a zero interest-rate policy (ZIRP), three quantitative easing programs (QE) and Operation Twist, another Federal Reserve quantitative easing initiative. In addition to heavily manipulating the bond markets, these programs likely drove U.S. equities and equity REITs to all-time highs as artificially low interest rates made stocks appear inexpensive on a relative basis. Furthermore, concerns about inflation drove gold to all-time highs in 2011.

Historically safer assets like bonds and gold may no longer prove as effective in buffering a portfolio during the next period of equity market turmoil.

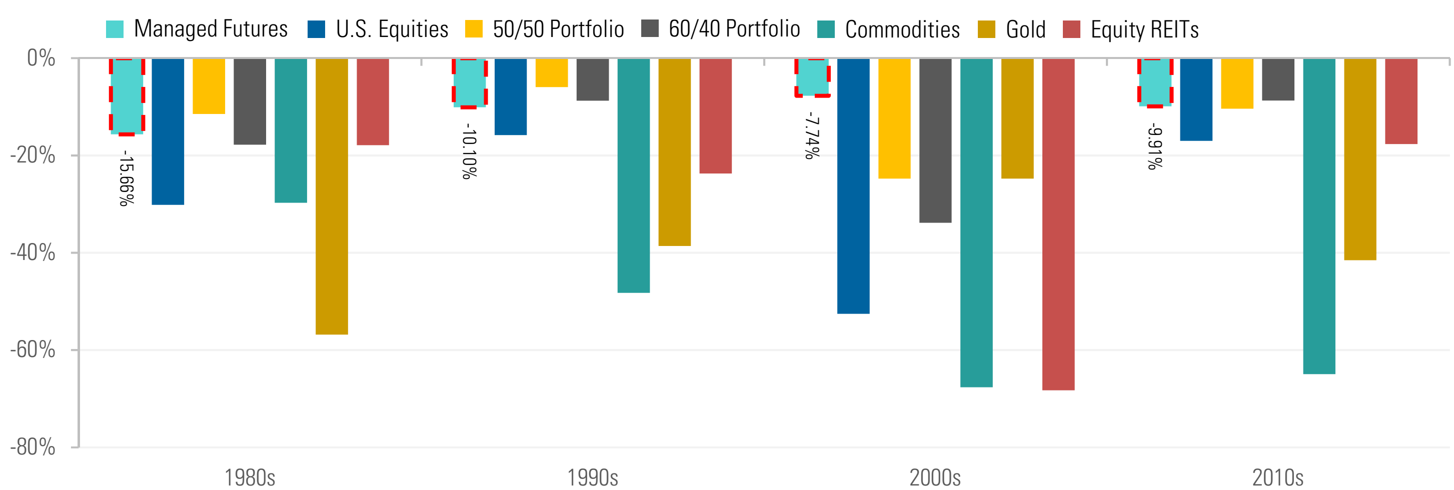
The Impact of Central Bank Intervention: Historical Interest Rates and the Price of Bonds and Gold

Growth of $10,000 for Bloomberg Barclays US Aggregate Bond Total Return Index (Bonds) and LBMA Gold Price PM (Gold) as well as corresponding Fed Funds Target Rate and 10 Year Treasury Yield based on monthly data from January 1976 to June 2018. Source: Bloomberg LP.



Worst Drawdowns by Decade: Managed Futures have Consistently Exhibited Relatively Low Drawdowns Since 1980

Based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.



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.

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WHY MANAGED FUTURES?

- ✓ A long history of delivering attractive risk-adjusted returns
- ✓ Uncorrelated to most major 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

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.

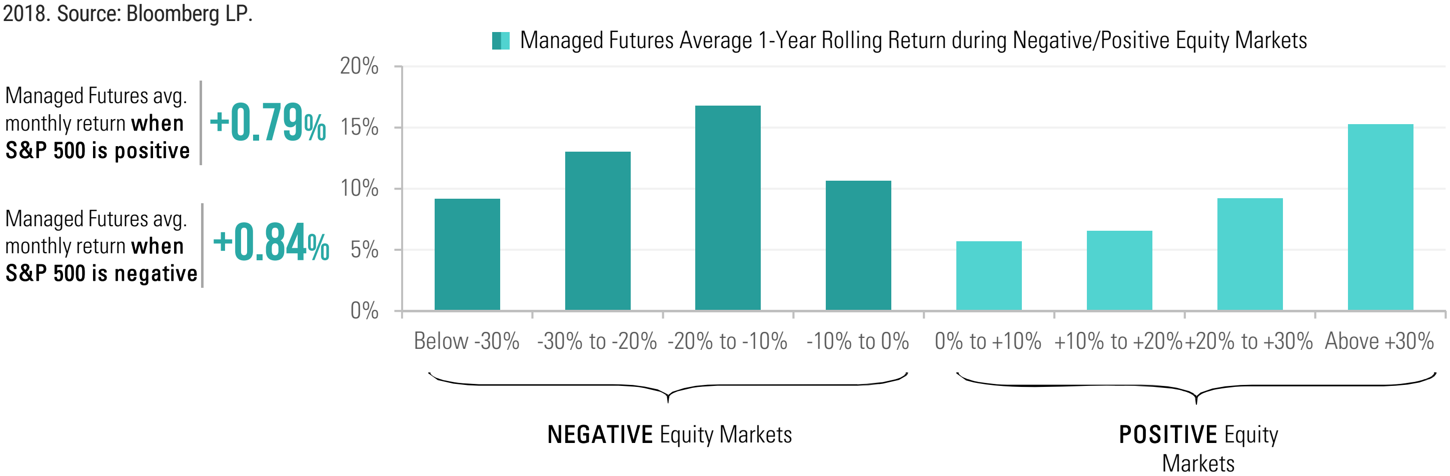
In addition to outperforming many major asset classes since 1980, managed futures have demonstrated a superior drawdown profile when compared to U.S. equities. Because of the uncorrelated nature, managed futures offer the potential for positive returns during both up and down markets, including periods of equity market turmoil. During the worst 15 quarters for the S&P 500 Index since 1980, managed futures outperformed by a wide margin every quarter and delivered positive returns during 11 of the 15 quarters.

The potential to produce positive returns in various equity market environments as well as crisis alpha when investors need it most make managed futures a potentially compelling asset class.

Managed futures strategies have historically exhibited positive returns in both up and down equity markets.

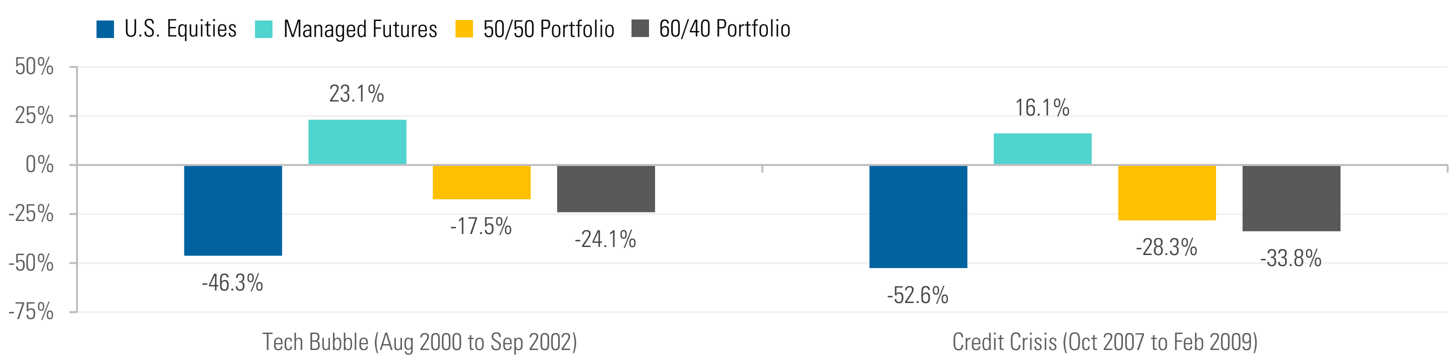
Managed Futures Performance During Up & Down Equity Markets

Average 1-year return for Managed Futures during corresponding positive/negative periods for U.S. Equities based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.



Managed Futures Performance During Periods of Prolonged Equity Market Turmoil

Based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.



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. 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.

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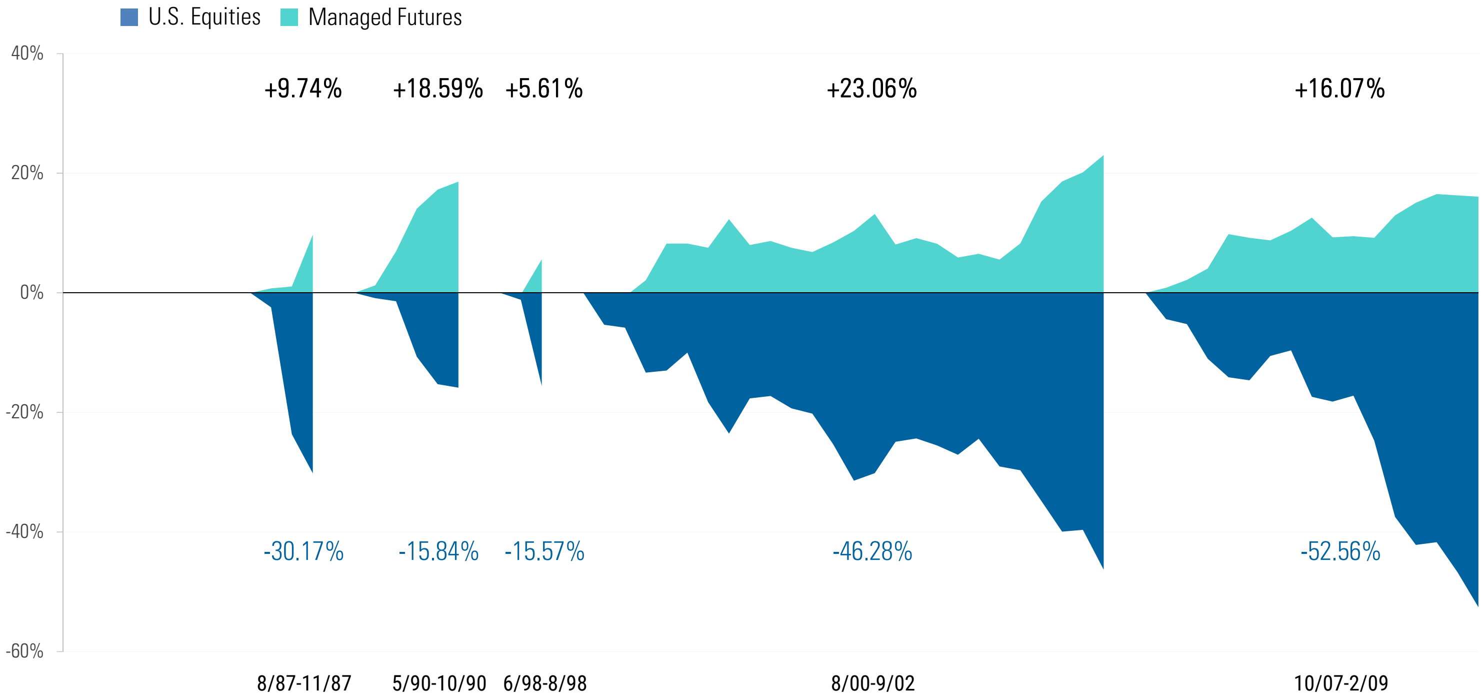
Since 1980, managed futures have been a source of crisis alpha during periods of equity market turmoil, outperforming the S&P 500 Index in each of the worst 15 quarters.

Managed Futures Have Performed Well During the Worst 5 Drawdowns for the S&P 500 Index Since 1987

Based on S&P 500 Price Index and BarclayHedge CTA Index monthly return data from January 1987 to June 2018. Source: Bloomberg LP.



Managed Futures Have Outperformed U.S. Equities During Each of the Worst 15 Quarters for the S&P 500 Index Since 1980

Based on S&P 500 Price Index (U.S. Equities) and BarclayHedge CTA Index (Managed Futures) monthly return data from January 1980 to June 2018. Source: Bloomberg LP.

Period	Event	S&P 500 Index	Managed Futures	Difference
4Q 1987	Black Monday / Global Stock Markets Crash	-23.2%	+13.8%	+37.0%
4Q 2008	Bear Market U.S. Equities Led by Financials	-22.6%	+6.7%	+29.3%
3Q 2002	WorldCom Scandal	-17.6%	+6.8%	+24.4%
3Q 2001	Terrorist Attacks on World Trade Center and Pentagon	-15.0%	+2.6%	+17.6%
3Q 1990	Iraq Invades Kuwait	-14.5%	+15.8%	+30.3%
3Q 2011	European Sovereign Debt Crisis / Global Growth Fears	-14.3%	+1.0%	+15.3%
2Q 2002	Continuing Aftermath of Technology Bubble Bursting	-13.7%	+8.2%	+21.9%
1Q 2001	Bear Market U.S. Equities Led by Technology	-12.1%	+3.8%	+15.9%
2Q 2010	Sovereign Debt Crisis	-11.9%	-0.4%	+11.4%
1Q 2009	Continuing Bear Market U.S. Equities Led by Financials	-11.7%	-1.9%	+9.8%
3Q 1981	Volcker Monetary Policy / Official Start of Recession	-11.5%	-2.3%	+9.1%
3Q 1998	Russia Defaults on Debt / LTCM Crisis	-10.3%	+9.0%	+19.3%
1Q 2008	Credit Crisis / Commodity Prices Rally	-9.9%	+6.9%	+16.8%
3Q 2008	Credit Crisis / Government Sponsored Bailout of Banks	-8.9%	-3.0%	+5.9%
1Q 1982	Volcker Monetary Policy / Recession	-8.6%	+12.5%	+21.1%

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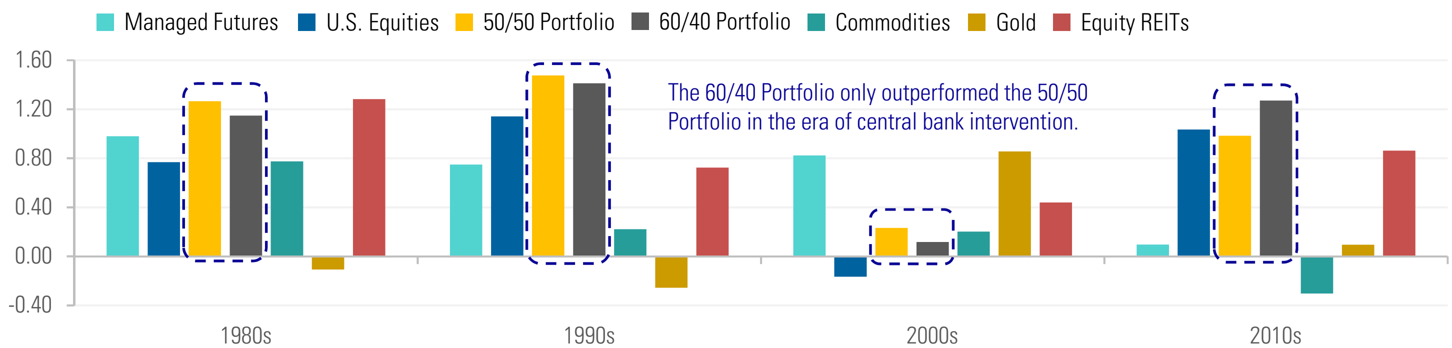
Integrating Managed Futures

Historically, integrating managed futures into a portfolio dramatically improved performance over time, including reduced drawdowns, higher returns, lower volatility and higher return per unit of risk. Since 1980, a 50/50 portfolio consisting of 50% U.S. equities and 50% managed futures provided investors with better downside protection and higher returns than the traditional 60/40 portfolio consisting of 60% U.S. equities and 40% bonds. Furthermore, rising interest rates from a zero-interest rate policy increases the likelihood that bonds may not buffer the next equity market drawdown.

Return per Risk by Decade for Managed Futures and Other Asset Classes

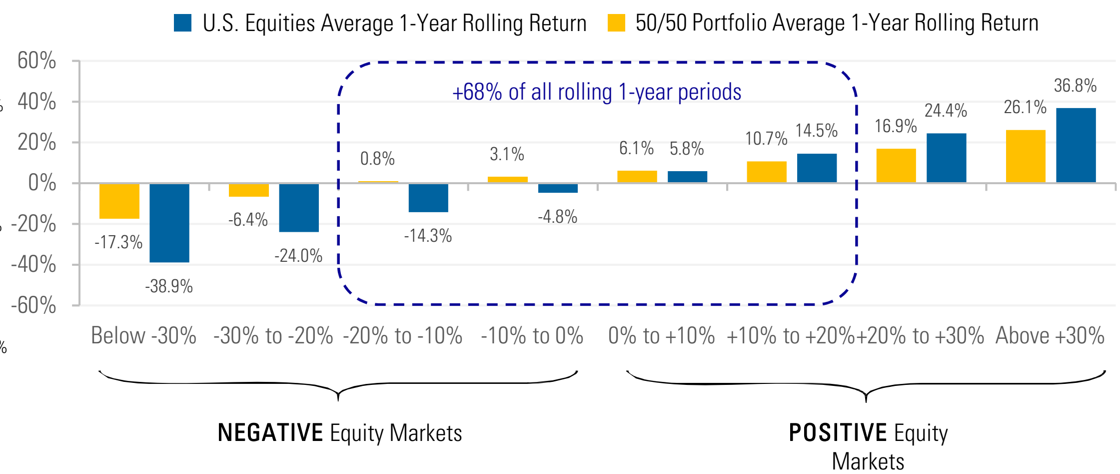
Return per risk calculated as annualized return divided by standard deviation. Based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.



50/50 Portfolio Performance During Up & Down Equity Markets

Average 1-year return for a 50/50 Portfolio during corresponding positive/negative periods for U.S. Equities based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.

50/50 Portfolio avg. monthly return	50/50	S&P 500
when **S&P 500 is positive**	+2.04%	S&P 500: +3.28%
when **S&P 500 is negative**	-1.24%	S&P 500: -3.33%
during **all months**	+0.80%	S&P 500: +0.79%



Integrating Managed Futures Into a Portfolio Dramatically Improved Portfolio Performance Historically Since 1980

Based on monthly return data from January 1980 to June 2018. Source: Bloomberg LP.

Data from January 1980 to June 2018	Managed Futures	S&P 500 Index	MSCI World Index	50/50 Portfolio	60/40 Portfolio
Worst Drawdown	-15.66%	-52.56%	-55.37%	-24.77%	-33.85%
Average Drawdown	-3.24%	-9.59%	-10.99%	-2.75%	-3.61%
Aggregate Return	2852%	2418%	1494%	3199%	2249%
Annualized Return	9.19%	8.74%	7.46%	9.51%	8.54%
Standard Deviation	13.91%	14.75%	14.68%	10.18%	9.46%
Return Per Risk	0.66	0.59	0.51	0.93	0.90
Correlation to S&P 500 Index	0.009	1.000	0.882	0.730	0.975

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GLOSSARY OF TERMS

BarclayHedge CTA Index: A leading industry benchmark of representative performance of commodity trading advisors. The Index is equally weighted and rebalanced at the beginning of each year.
Bloomberg Barclays US Aggregate Bond Index: A broad-based flagship benchmark that measures the investment grade, US 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.
FTSE NAREIT All Equity REITS TR Index: A free-float adjusted, market capitalization-weighted index of U.S. equity REITs.
LBMA Gold Price PM: A Gold price index set at 15:00 London BST in US Dollars. ICE Benchmark Association (IBA) provides the price platform, methodology as well as the overall administration and governance for the LBMA Gold Price.
MSCI World Index: A broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. Index covers approximately 85% of the free float-adjusted market capitalization in each country.
S&P 500 Index: A market capitalization-weighted index that is used to represent the U.S. large-cap stock market. The Price Index does not include the impact of reinvested dividends. The Total Return (TR) Index reflects the effects of dividend reinvestment. Total Return Index data is not available prior to 1988. Any analysis period beginning prior to 1988 uses the Price Index.
S&P GSCI Total Return Index: The first major investable commodity index and one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta.
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.

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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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