Catalyst Funds
Intelligent Alternatives

Being Active With Fixed Income

Active Bond Managers Are Beating the Market

Over the past decade, there has been much written about and discussed in the financial media over the debate between active and passive investing. During that timeframe, many fixed income investors have jumped on the passive investing bandwagon due to their laser focus on management fees and the assumption that there aren't many idiosyncratic risks to exploit compared to equities in order to generate alpha. However, the truth of the matter is that across the fixed income space, passive strategies have for the most part underperformed active strategies, while exposing investors to more risk in their portfolios. Actively managed fixed income funds can also include investment opportunities that are not available to passive funds.

One of the main problems with passive fixed income strategies is that they cannot effectively manage duration like actively managed strategies can. In today's rising rate environment this is problematic because historical data shows as the Fed raised interest rates, higher duration bonds have experienced a greater risk of loss compared to shorter duration bonds. Since actively managed bond funds have the ability to shift toward short-term debt, this allows them to reduce risk and outperform index-tracking bond funds.

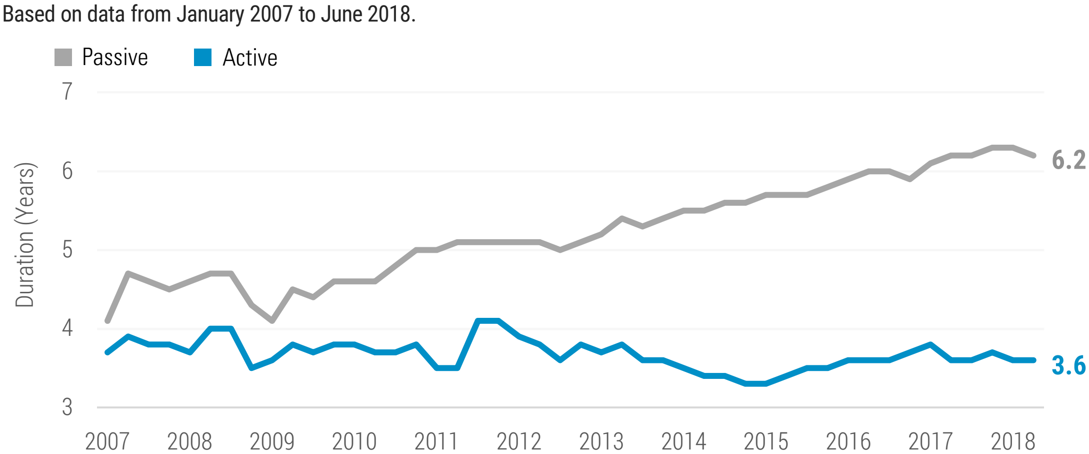
Unlike actively managed fixed income funds, passive funds cannot effectively manage duration risk making them more vulnerable in today's environment.

The Problem with High Duration Bonds During Periods of Rising Rates

Historically, if interest rates change by 1%, a fixed income fund's price is likely to experience an inverse change by approximately 1% for each year of duration.

Passive Fixed Income Fund Duration Has Steadily Increased Since 2007

Based on data from January 2007 to June 2018.



Source: Morningstar Direct/Wall Street Journal. Taxable bond mutual fund data from Morningstar and Bloomberg, via Investment Company Institute.

Passive Fixed Income Exposure has Experienced Losses over the Past Year because of Increased Duration Risk and Rising Rates
Based on data from October 2017 to October 2018.

Source: Bloomberg LP. Floating Rate Notes represented by the Bloomberg Barclays US Floating Rate Note < 5 Years Total Return Index.

Potential Benefits of Active Management Versus Passive Investing

WHY SELECT AN ACTIVE FIXED INCOME FUND?

- ✓ Recent Morningstar research found that 70% of active managers who choose intermediate-term bonds are beating their passive peers
- ✓ Active managers have the ability to decrease long duration exposure
- ✓ Active managers are more able to pursue "smart risk"
- ✓ One of the primary fixed income indexes, the U.S. Barclays Aggregate Index, has experienced steadily declining returns over the past five years
- ✓ Active managers have a wide variety of sectors to invest, while index-tracking funds have limited exposure to non-traditional fixed income sectors

Many passive strategies have become riskier because of the low interest rate environment. Investors have bulked up on passively managed portfolios since the financial crisis. However, recent Morningstar research found that 70% of active managers who choose intermediate-term bonds are beating their passive peers.[1] As the Fed continues the path of tightening monetary policy and ponders further interest rate hikes in 2019, the big question is whether investors are being adequately compensated in their fixed income portfolios.

Index-tracking funds are slow to maneuver and have continued to increase long duration exposure despite the rising rate environment while active managers can easily manage the value erosion associated with increasing rates by focusing on shorter term bonds. The current cycle favors credit selection and portfolio construction grounded in fundamental analysis, along with active risk management to capture relative value opportunities. In rising markets issuers and investors are prone to over leveraging, poor structures and tight pricing. This combination of events usually occurs at the most inopportune time.

Active managers are more able to pursue "smart risk" (i.e. assets that possess commensurate returns for the risk profile). For example, one way to avoid duration exposure altogether is by investing in actively managed floating rate loans, which show an extremely low interest rate sensitivity to interest rate movements and have historically outperformed all other types of debt in periods of tight monetary policy. Higher duration can increase the risk of fund loss in a rising interest rate environment. Compared to active funds, passive funds typically have higher average duration as indicated in the chart on page 1.

[1] "Unlike Stock Pickers, Active Bond Managers Are Beating the Market," Wall Street Journal, Nov. 1, 2018

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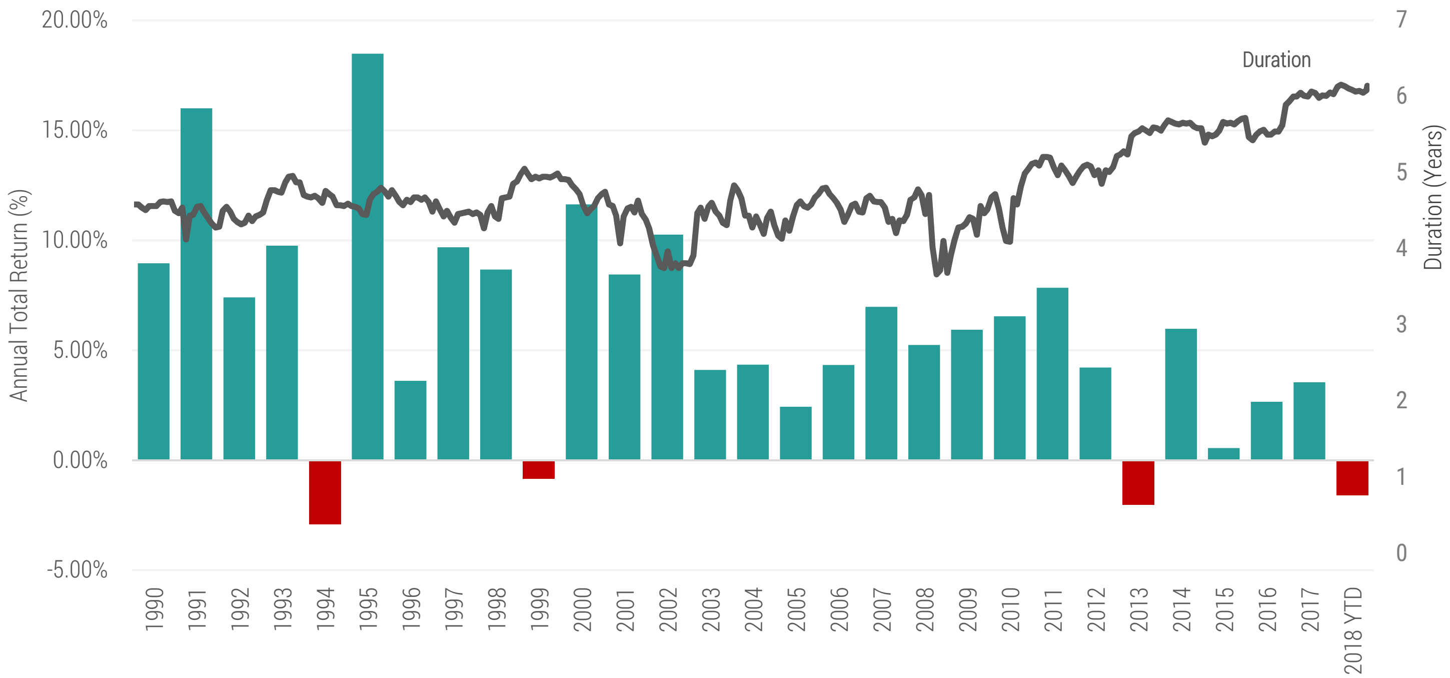
Another shortcoming of passive funds has been a decline in performance due to replication of fixed income indexes such as the AGG. To put things in perspective, returns of investment grade bonds have steadily declined over the past five years. As of October 2018, the AGG was down 2.4%. Since 1989, the duration has increased from 4.6 to 6.0.

U.S. Barclays Aggregate Annual Total Returns Have Steadily Declined Over the Past Five Years

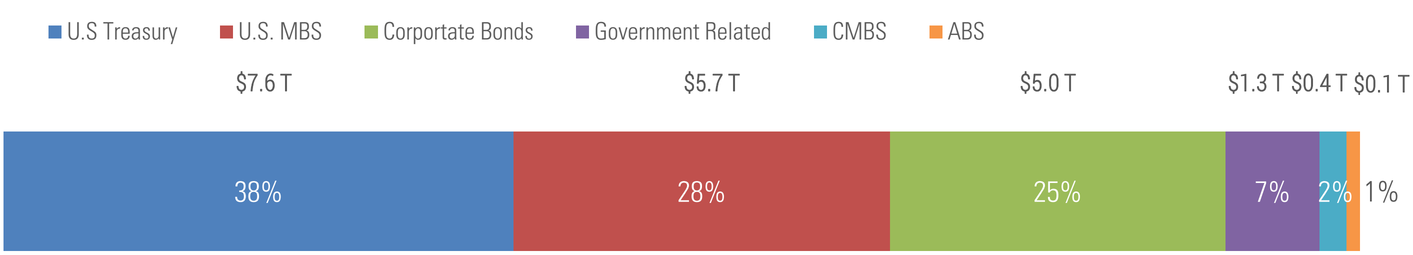
Based on data from January 1990 to September 2018. Source: Bloomberg and Barclays Aggregate Index.



One reason for the AGG's underperformance is that it does not include about two-thirds of the investable fixed income space, limiting exposure to fixed income sectors that have the potential to deliver returns for investors. Index-tracking funds, by their structure, continue to concentrate on traditional bonds that will suffer greater loss when rates rise, while many active managers have been steadily shifting toward short-term debt, which is less vulnerable to losses from rising rates and inflation.

U.S. Barclays Aggregate Current Composition

Source: Bloomberg and Barclays Aggregate Index.



Source: Bloomberg. 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.

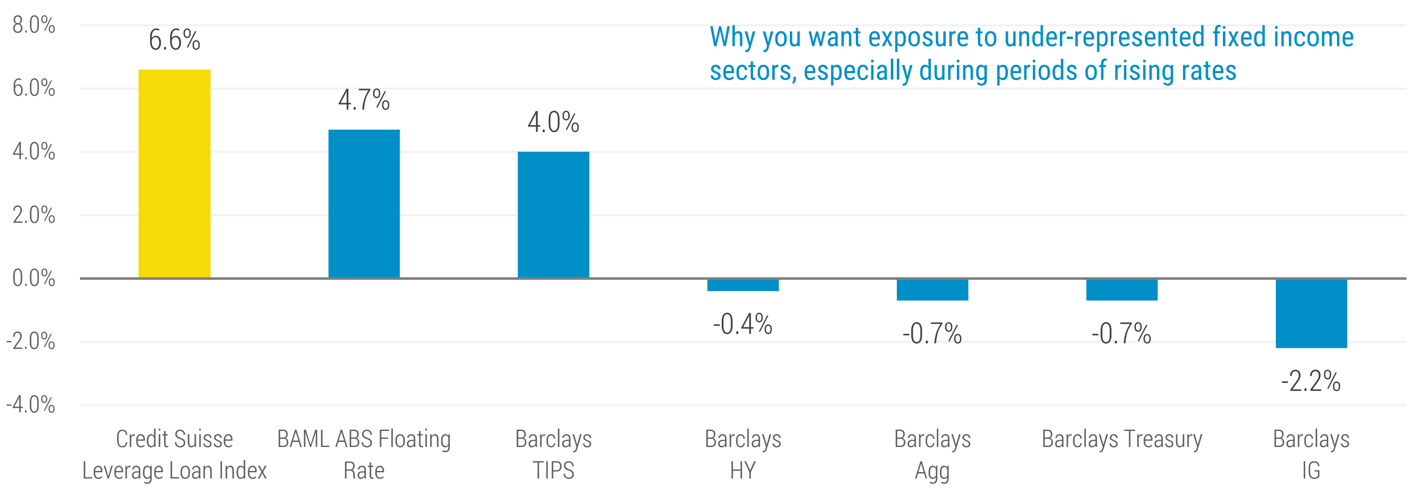
Another drawback of passive funds is the need to rebalance indices monthly because of bond maturity, new bond issuance, and rules that govern whether a particular credit can be included in the portfolio. Generally speaking, passive strategies are "price takers" in the fixed income space. On the other hand, actively managed funds can use proprietary technology, analytics, and research to buy or sell at the optimum price to potentially enhance returns.

We conclude that actively managed fixed income funds have frequently outperformed passive strategies over time. In the current rising interest rate environment, actively managed funds can capitalize on market dislocations and inefficiencies, compared to passive funds, which must ride them out and endure associated market volatility. That said, actively managed fixed income funds have the potential for greater returns by aligning investors' objectives with market risks, which is where passive strategies often fall short. Specifically, we believe investors should consider investing in floating rate bank loans due to their ability to provide some hedge against rising rates and inflation, which can help investors achieve the returns they are seeking in today's market environment.

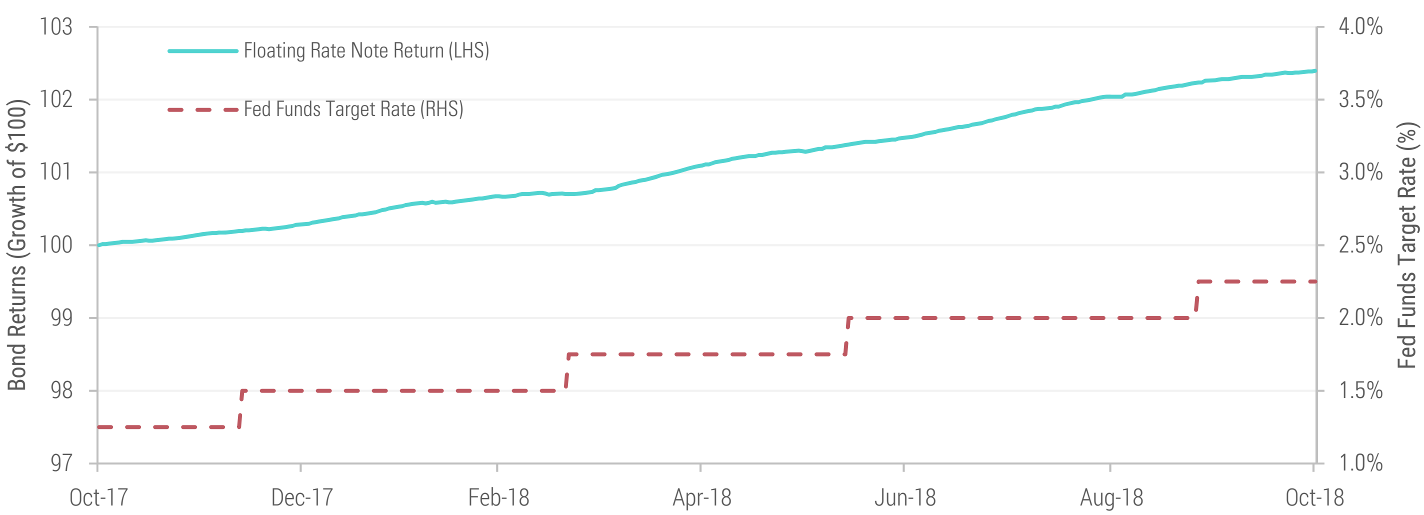
Sectors Under-Represented or Not Represented in Passive Indices

As previously mentioned, many passive indices such as the AGG, do not offer investors diversification benefits because they do not include a significant portion of the investible fixed income space, which in turn could also have a negative impact on potential returns. One of these sectors include floating-rate bank loans among others.

Shorter Duration Bonds Outperform During Periods of Rising Interest Rates[2]
Based on data from January 1993 to September 2018. Source: Bank of America Merrill Lynch, Barclays, Credit Suisse, Guggenheim Investments.



Floating Rate Notes Have Performed Well During the Recent Period of Rising Rates
Based on data from October 2017 to October 2018.



Source: Bloomberg LP. Floating Rate Notes represented by the Bloomberg Barclays US Floating Rate Note < 5 Years Total Return Index.

[2]Periods of rising rates are defined as a cumulative change of the three-month Libor rate in excess of 100 basis points, and excludes the 2007-2008 financial crisis. Data as of September 30, 2018.

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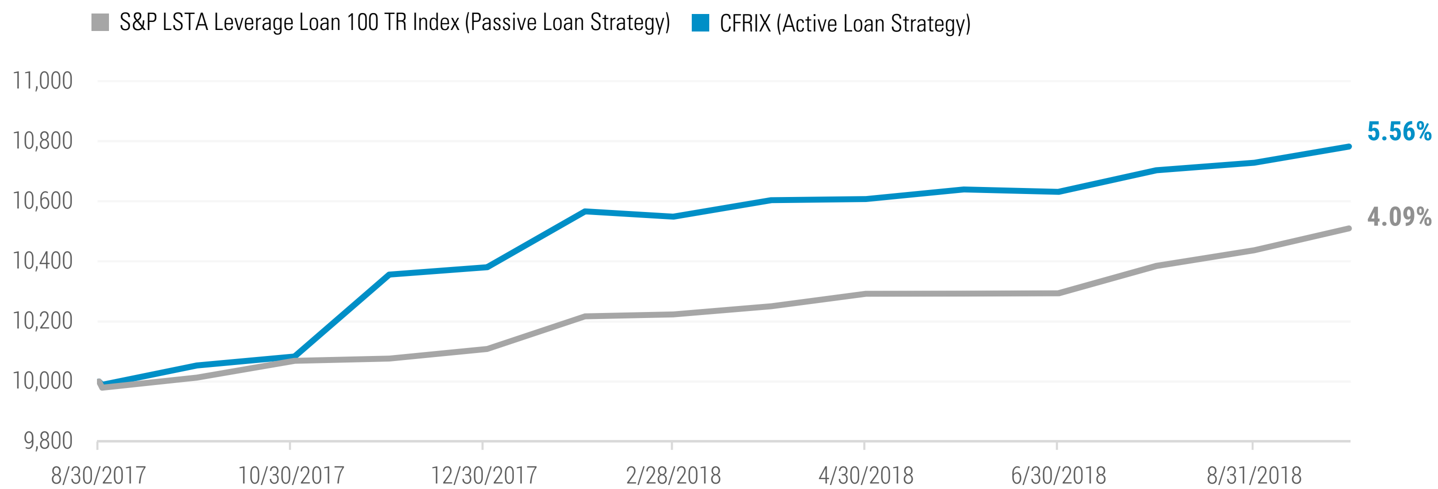
Benefits of Active Floating Rate Funds in Fixed Income Portfolios

Active managers employ several methods to manage risk and achieve superior returns over passive index funds, such as applying rigorous analysis of the credit risk of every exposure considered for purchase (or sale), evaluating the issuer's ability to repay as well as assessing default and recovery risk. They also study the technical conditions of the market including inflows, rate levels, and macro factors that could impact the value of an investment. Managers also assess the liquidity of a particular investment to ensure a balanced risk-reward position is taken. Fundamentally, they consistently compare the returns available on a universe of existing and potential investments and seek to proactively exploit inefficiencies by capturing opportunities when relative value shifts.

Catalyst/CIFC Floating Rate Income Fund (CFRIX) Has Outperformed the Passive Loan Index by 1.47% Since August 2017

Based on data from August 2017 to August 2018. Source: Bloomberg LP.



During the Recent Period of Rising Rates, Bank Loans have Outperformed while CFRIX has Significantly Outperformed

As of: 10/31/2018	Since 11/08/2016	Since 12/31/2017
Fund/Index/Category	Return Since Election	2018 YTD Return
Actively Managed Loan Strategy (CFRIX)	14.23%	3.86%
Bank Loan	8.35%	3.01%
BBgBarc US Agg Bond TR	-1.20%	-2.38%
Morningstar Long Government	-8.23%	-8.46%
Morningstar Long-Term Bond	-1.84%	-5.97%
Morningstar Intermediate Government	-2.46%	-1.95%
Morningstar Intermediate-Term Bond	-0.36%	-2.11%

Based on a $10,000 Investment (As of: 10/31/2018)	Since 11/08/2016	Since 12/31/2017
Fund/Index/Category	Return Since Election	2018 YTD Return
Actively Managed Loan Strategy (CFRIX)	$11,423.04	$10,385.67
Bank Loan	$10,834.90	$10,300.67
BBgBarc US Agg Bond TR	$9,880.23	$9,762.44
Morningstar Long Government	$9,177.35	$9,154.26
Morningstar Long-Term Bond	$9,816.00	$9,402.62
Morningstar Intermediate Government	$9,754.42	$9,805.48
Morningstar Intermediate-Term Bond	$9,963.82	$9,788.89

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Catalyst/CIFC Floating Rate Income Fund (CFRIX)

The Catalyst/CIFC Floating Rate Income Fund seeks current income by investing in a portfolio composed mainly of corporate senior secured bank loans (sometimes referred to as "adjustable rate loans" or "floating rate loans"). These loans hold a senior position in the capital structure and are typically rated below investment grade. The Fund may invest in other corporate debt securities, including high yield securities (commonly referred to as “junk bonds”). The Fund’s Sub-Advisor (CIFC Investment Management LLC) utilizes a disciplined, bottom-up approach that focuses on credit fundamentals, relative value, and active risk management.

Performance (%): Ending September 30, 2018
Annualized if greater than a year

Share Class/Benchmark	1 Year	2 Year	3 Year	5 Year	Since Inception*
Class I	7.25	6.84	4.91	3.74	4.32
Class A	6.89	6.52	4.61	3.46	4.05
Class C	6.12	5.70	3.82	2.68	3.26
Class A w/ Sales Charge	1.79	3.96	2.95	2.47	3.17
S&P LSTA Levg. Loan 100 TR Index	4.96	4.78	5.20	3.56	3.64

* Inception: 12/31/2012

The Fund’s maximum sales charge for Class “A” shares is 4.75%. Total annual fund operating expenses are 1.88%, 2.63% and 1.60% 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.

IMPORTANT RISK DISCLOSURES

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. Investments in foreign securities could subject the Fund to greater risks including, currency fluctuation, economic conditions, and different governmental and accounting standards. The Fund’s portfolio may be focused on a limited number of industries, asset classes, countries, or issuers. The Fund may invest in high yield or junk bonds which present a greater risk than bonds of higher quality. Other risks include credit risks and interest rate for Floating Rate Loan Funds. Changes in short-term market interest rates will directly affect the yield on the shares of a fund whose investments are normally invested in floating rate debt. Floating Rate Loan funds tend to be illiquid, the Fund might be unable to sell the loan in a timely manner as the secondary market is private, unregulated inter-dealer or inter-bank re-sale market. These factors may affect the value of your investment.

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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Glossary

Excess Spread: the amount an investor gets paid after expected credit losses.

Credit Suisse Leveraged Loan Index: a market-weighted index that tracks the performance of institutional leveraged loans.

BAML ABS Floating Rate Index: tracks the performance of U.S. dollar denominated investment grade asset backed securities publicly issued in the U.S. domestic market.

Barclays TIPS Index: the index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

Barclays HY Index: measures the USD-denominated, high yield, fixed-rate corporate bond market.

Barclays Agg Index: a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented.

Barclays Treasury Index: a market-capitalization weighted index that measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of one year or more.

Barclays IG Index: measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

S&P LSTA Leverage Loan 100 TR Index: reflects the performance of the largest facilities in the leveraged loan market.

Bloomberg Barclays US FRN < 5 yrs Total Return Index: a subset of the US Floating-Rate Note (FRN) Index, which measures the performance of USD denominated, investment-grade, floating-rate notes across corporate and government-related sectors.

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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