Catalyst Funds
Intelligent Alternatives

ADDING ALTERNATIVES

Seeking to Manage Drawdowns with Managed Futures

KEY TAKEAWAYS

- There are many risk factors that could trigger a potential equity market drawdown. Bonds may no longer be effective at buffering losses.
- Since 1950, the S&P 500 Index has spent over 74% of the time in a drawdown, with corrections in excess of 10% occurring more frequently than many investors realize.
- Managed futures[1] have not witnessed a drawdown worse than 10% in 26 years and have never experienced a drawdown in excess of 20%.
- Historically, implementing managed futures exposure into a portfolio may have resulted in higher returns with reduced drawdowns and lower volatility.

The return of volatility, increasing political and economic risk factors and rising interest rates have characterized 2018. Because of this bull market's incredible run, investors may overlook the fact that, since 1950, the S&P 500 Index has spent more than 74% of the time in a drawdown, with nearly half of the time spent in a drawdown exceeding 10%. While losses are a normal part of any well-functioning market, double-digit declines can lead some investors to make rash and emotional decisions that undermine a longer-term focus.

At Catalyst Funds, we believe that by examining drawdowns, and integrating strategies to offset the impact of equity market drawdowns, financial advisors can help provide better stability and encourage clients to stay the course over the long term. We believe that there are many risk factors (e.g., trade war and other political risks, rising interest rates, etc.) that could trigger a potential drawdown in the equity markets. Historically, an allocation to bonds was effective in buffering the impact of an equity market drawdown. However, rising interest rates from a zero interest-rate policy creates the risk that both equities and bonds could decline during the next drawdown.

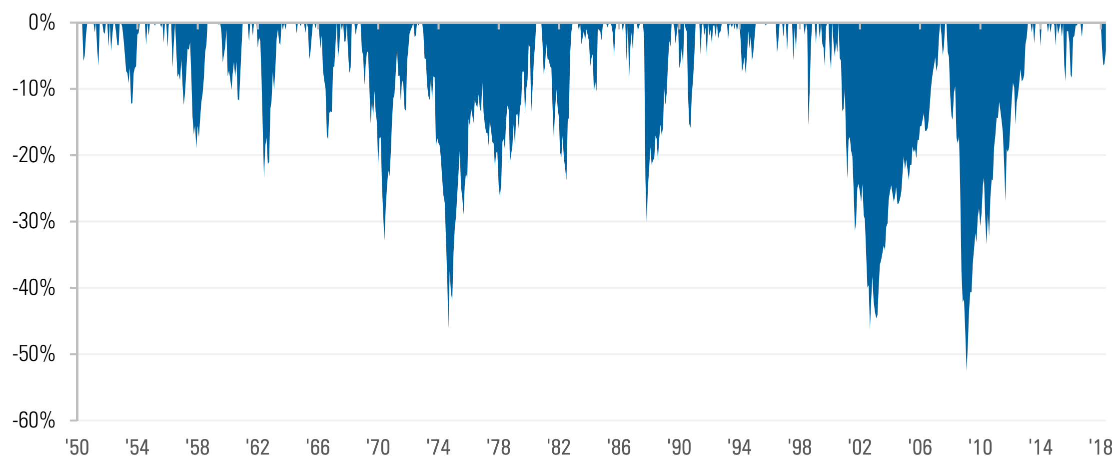
Investors should consider integrating managed futures exposure into their portfolios in an attempt to provide an uncorrelated return stream and also reduce the impact of equity market drawdowns.

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.

Since 1950, the S&P 500 Index has spent 15.6% of the time in a drawdown in excess of 20% and 74.4% of the time in any drawdown.

A History of Drawdowns: S&P 500 Index Historical Drawdowns Since 1950

Historical drawdowns based on S&P 500 Price Index monthly return data from January 1950 to May 2018.



Drawdowns	% of Months
Less than 10%	39.3%
10% to 20%	19.5%
20% or Worse	15.6%
Any Drawdown	74.4%

[1]Managed Futures are represented by the BarclayHedge CTA Index.

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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.

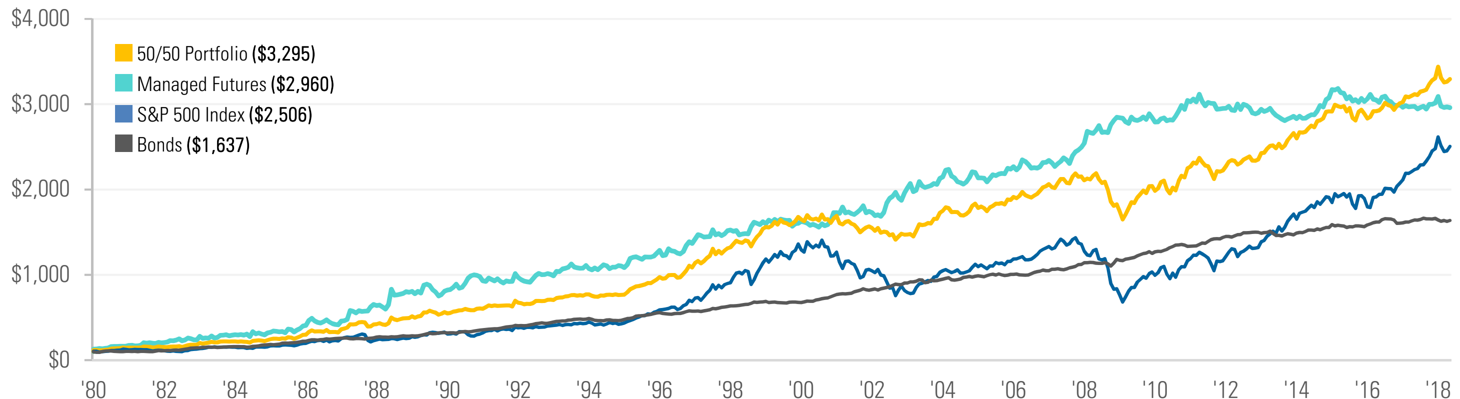
In addition to outperforming many major asset classes since 1980, managed futures have demonstrated a superior drawdown profile when compared to U.S. equities. Because of the uncorrelated nature, managed futures offer the potential for positive returns during equity market turmoil. During the worst 15 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.

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.

Because managed futures products seek to offer uncorrelated returns, integrating them into a client's portfolio may reduce the impact of equity market drawdowns.

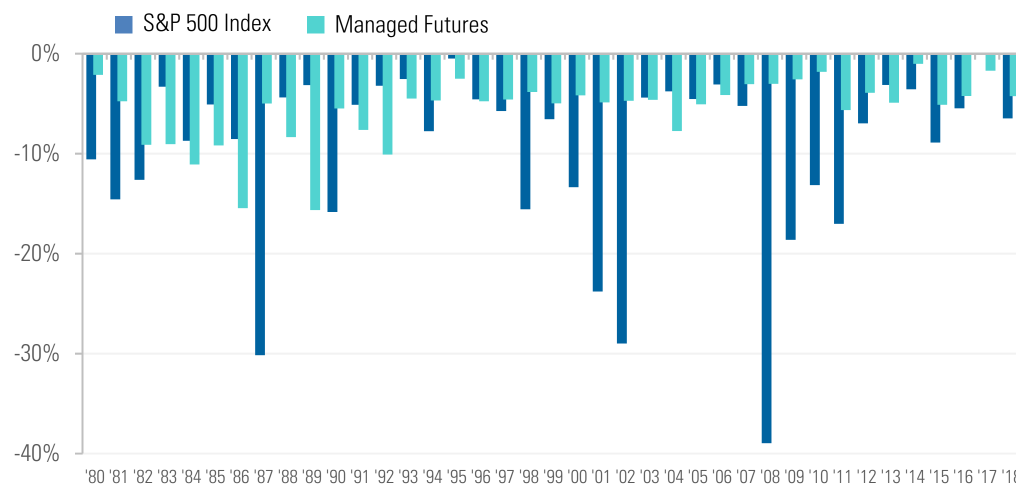
Growth of $100 for Managed Futures, Equities, Bonds and 50% Equity/50% Managed Futures Since 1980

BarclayHedge CTA Index (Managed Futures), S&P 500 Price Index (Equities), Bloomberg Barclays US Aggregate Bond Total Return Index (Bonds) and 50% S&P 500 Price Index/50% BarclayHedge CTA Index (rebalanced monthly) monthly return data from January 1980 to May 2018.



A Superior Drawdown Profile: Comparing Worst Drawdowns by Year Since 1980

Drawdowns based on S&P 500 Price Index and BarclayHedge CTA Index monthly return data from 1980 to May 2018.



	% of Years	
Drawdowns	S&P 500 Index	Managed Futures
10% or Less	67%	90%
10% to 20%	23%	10%
20% or More	10%	0%

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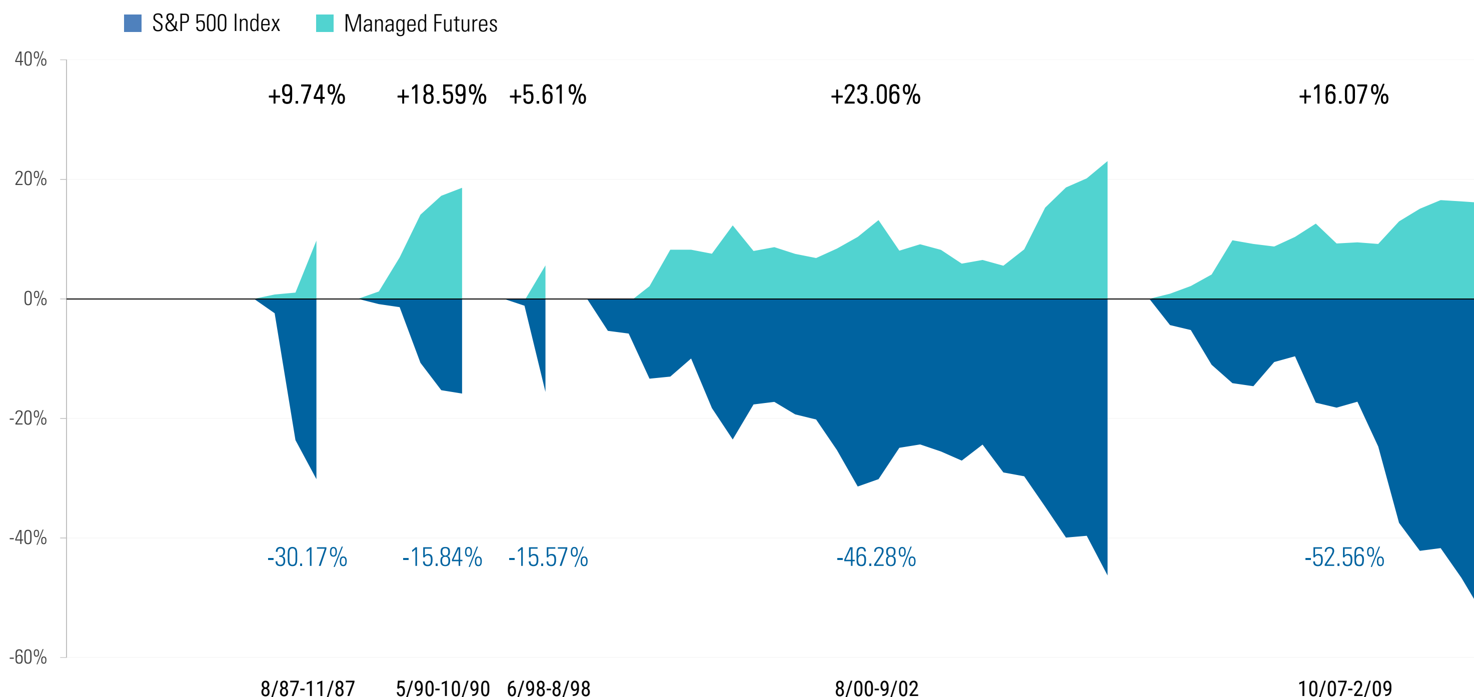
Since 1980, managed futures have been a source of crisis alpha during periods of equity market turmoil, outperforming the S&P 500 Index in each of the worst 15 quarters.

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 May 2018.



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 May 2018.

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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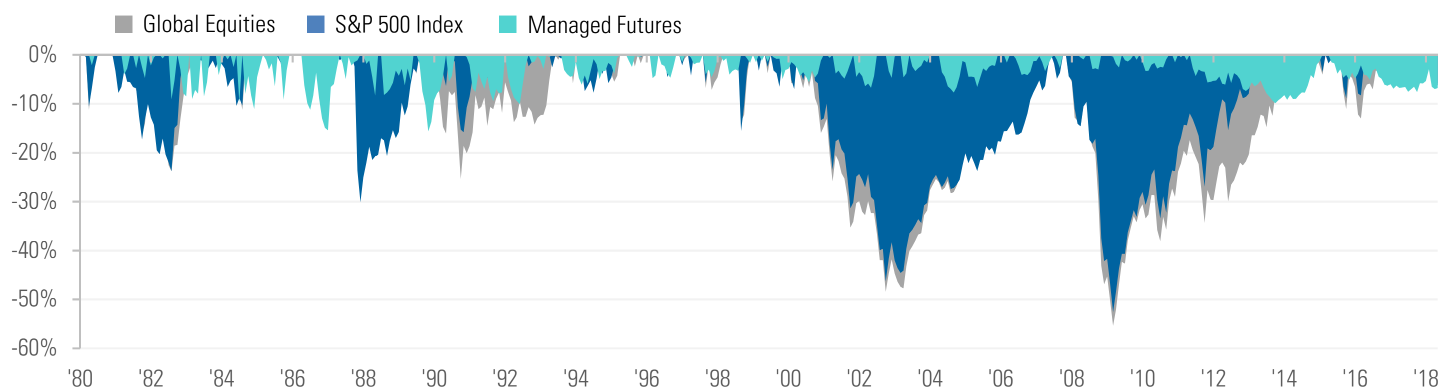
Integrating Managed Futures

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.

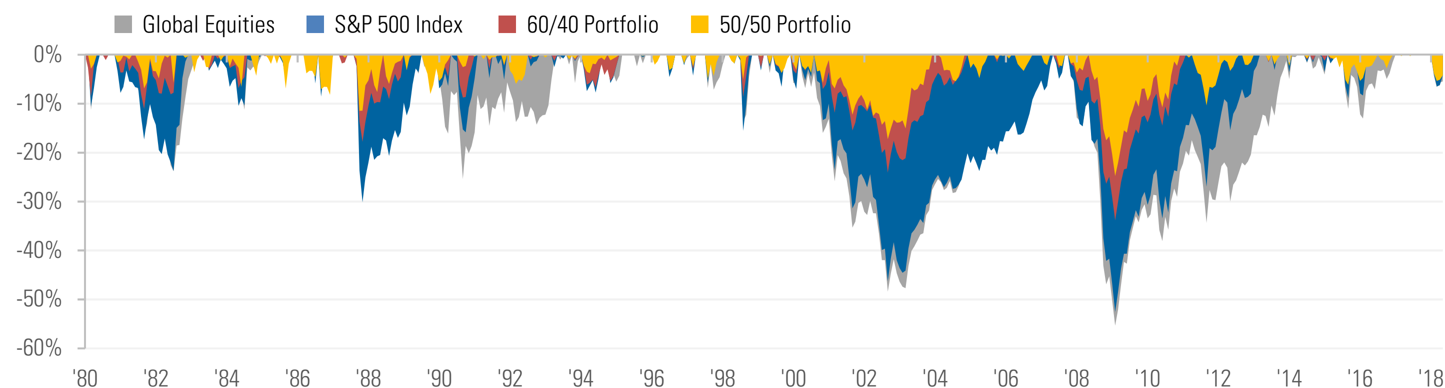
Managed Futures Have Exhibited Significantly Lower Drawdowns Than U.S. and Global Equities Since 1980

Based on MSCI World Index (Global Equities), S&P 500 Price Index (U.S. Equities) and BarclayHedge CTA Index (Managed Futures) monthly return data from January 1980 to May 2018.



A 50/50 Managed Futures/Equities Portfolio Has Provided Better Downside Protection Than a 60/40 Portfolio Since 1980

Based on MSCI World Index, S&P 500 Price Index, 50% BarclayHedge CTA Index /50% S&P 500 Price Index (rebalanced monthly) and 60% S&P 500 Price Index/40% Bloomberg Barclays US Aggregate Bond Total Return Index (rebalanced monthly) monthly return data from January 1980 to May 2018.



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

Based on BarclayHedge CTA Index, MSCI World Index, S&P 500 Price Index, 50% BarclayHedge CTA Index /50% S&P 500 Price Index (rebalanced monthly) and 60% S&P 500 Price Index/40% Bloomberg Barclays US Aggregate Bond Total Return Index (rebalanced monthly) monthly return data from January 1980 to May 2018.

Data from January 1980 to May 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	-3.23%	-9.60%	-11.00%	-2.75%	-3.61%
Aggregate Return	2860%	2406%	1496%	3195%	2244%
Annualized Return	9.22%	8.75%	7.48%	9.52%	8.56%
Standard Deviation	13.93%	14.76%	14.70%	10.19%	9.47%
Return Per Risk	0.66	0.59	0.51	0.93	0.90

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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.

Standard Deviation: A statistical measure of how consistent returns are over time; a higher standard deviation indicates historically more volatility.

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.

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.

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 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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