rationalfunds

ADDING ALTERNATIVES

Why Satellite Fixed Income in Your Portfolio Makes Sense

KEY TAKEAWAYS

- While the Fed has indicated that more interest rate hikes are likely on the horizon heading into next year, the fact of the matter is that interest rates have been historically low over the past decade.
- In their quest for higher bond yields, investors have taken on more risk to achieve the same target returns compared to more than a decade ago.
- The big question is whether investors are being adequately compensated for riskier investments, compared to "safer bets" such as investment grade bonds.
- We believe that actively-managed, satellite fixed income investments can potentially enhance a portfolio's returns, while balancing risks and returns.

Since 2015, interest rates in the United States have been slowly creeping upward, rising from the near zero interest rate environment set by the U.S. Federal Reserve (Fed) on the heels of the 2008-2009 Great Recession. While the Fed has indicated that more interest rate hikes are likely on the horizon heading into next year, the fact of the matter is that interest rates have been historically low over the past decade. During this period, bond funds have not fared well. Consequently, in their quest for higher bond yields, investors have taken on more risk to achieve the same target returns compared to more than a decade ago.

Accordingly, we believe that actively-managed, satellite fixed income investments can potentially enhance a portfolio's returns, while balancing risks and returns. These investments can help to offer non-correlated returns with the potential of protecting against interest rate increases, while at the same time offering investors access to markets that are not contained in traditional fixed income investments, as represented in the Bloomberg Barclays U.S. Aggregate Index (the AGG). Satellite investment products include the following: Commercial Mortgage Backed Securities (CMBS), Real Estate Investment Trusts (REITs), floating rate securities, shorter duration securities, as well as access to alternative asset classes and asset-backed securities.

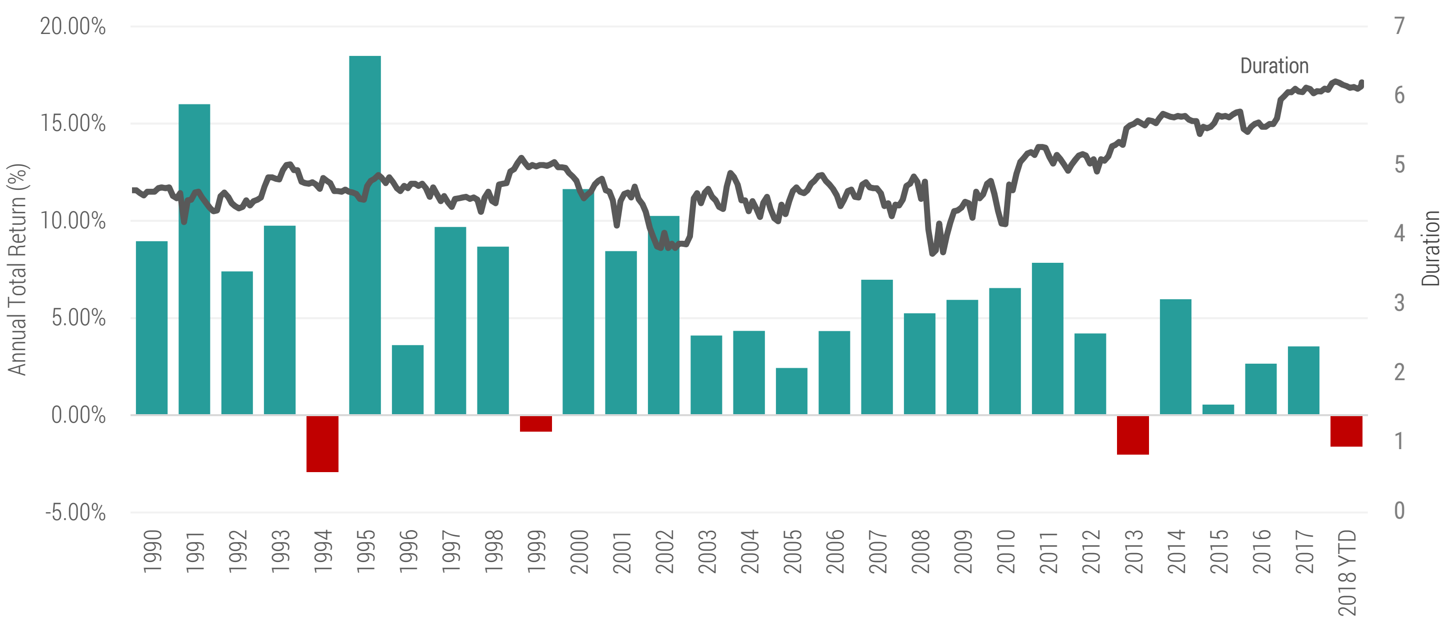
Are Investors Being Adequately Compensated?

To put things in perspective, returns of investment grade bonds have steadily declined over the past five years, according to the AGG. As of September 2018, the AGG was down 1.6. Additionally, prior to this year, the AGG has only had three negative years out of the last three decades. Since 1989 however, the duration has increased from 4.6% to 6.0%.

As the Fed continues the path of tightening monetary policy and pondering further interest rate hikes in 2019, the big question is whether investors are being adequately compensated for riskier investments, compared to "safer bets" such as investment grade bonds.

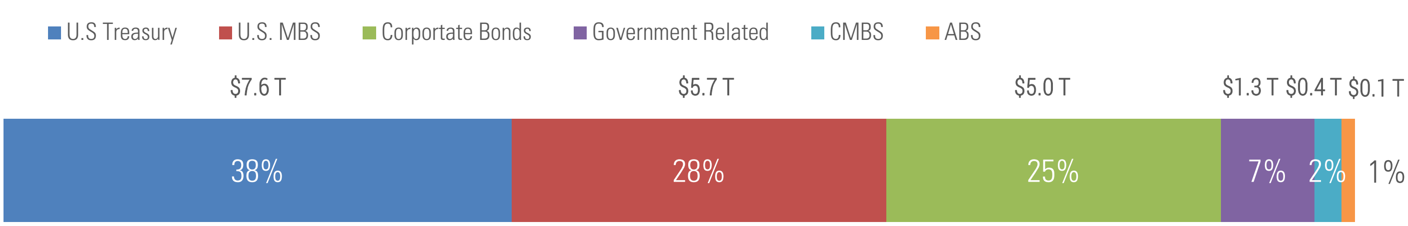
According to the U.S. Barclays Aggregate Index, returns of investment grade bonds have steadily declined over the past five years.

U.S. Barclays Aggregate Annual Total Returns
Based on data from January 1990 to September 2018. Source: Bloomberg and Barclays Aggregate Index.



When it comes to investing in the fixed income space, passive strategies and fixed-income benchmarks exclude a significant portion of the investible market. For example, just 1.57% of the AGG is invested in commercial mortgage backed securities (CMBS), and just 1.18% is in invested in non-agency CMBS; these are securities that may offer attractive yields, limited duration risk and investment grade ratings. The AGG is largely comprised of low-yielding, long-duration, government-related securities. Consequently, diversified institutional investors face the prospect of lower returns if they are overly dependent on products that track such benchmarks.

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.

Low Correlation Adds to Portfolio Diversification and Potential Returns

Due to satellite funds' historically low correlation to the AGG, these investments act as compliments to both equity and fixed income positions and work towards diversifying the overall portfolio. We believe that satellite fixed income investments can help to improve the risk-return characteristics of an investor's portfolio, while reducing overall volatility. In addition, they can provide a hedge against certain portfolio exposures, while reducing concentration risk and overall volatility. In the following table, Morningstar has identified a variety of fixed income categories that exhibit low correlation to traditional fixed income investments as represented by the Agg.

Satellite fixed income products have low correlation to both equity and fixed income positions and work towards diversifying the overall portfolio.

Low Correlation: Returns Vs. Bloomberg Barclays U.S. Aggregate
Correlation based on data from June 2015 to August 2018. Source: Morningstar, Inc.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Morningstar Long-Term Bond	1.00										
(2) Morningstar Bank Loan	0.18	1.00									
(3) Morningstar Intermediate-Term Bond	0.96	0.28	1.00								
(4) Morningstar Short-Term Bond	0.79	0.53	0.91	1.00							
(5) Morningstar High Yield Bond	0.35	0.88	0.43	0.62	1.00						
(6) Morningstar Nontraditional Bond	0.32	0.87	0.38	0.54	0.92	1.00					
(7) Morningstar Multisector Bond	0.62	0.78	0.69	0.79	0.93	0.90	1.00				
(8) Morningstar Corporate Bond	0.88	0.54	0.92	0.92	0.67	0.64	0.87	1.00			
(9) Morningstar Ultrashort Bond	0.28	0.78	0.41	0.66	0.77	0.74	0.73	0.57	1.00		
(10) SPDR S&P 500 ETF	0.16	0.56	0.15	0.30	0.68	0.65	0.62	0.39	0.53	1.00	
(11) Bloomberg Barclays U.S. Aggregate	0.94	0.05	0.96	0.80	0.20	0.12	0.47	0.80	0.22	-0.03	1.00

What Makes CMBS a Good Satellite Investment?

The question remains with fixed income portfolios: is the yield compensating you for the risk? We believe that fixed Income satellites such as CMBS are the answer to this question.

At its core, CMBS are real estate investments because the performance of the underlying properties is the primary driver of the credit performance of any given bond. CMBS are generally diversified and structured to limit concentration risk geographically, by property type, and by sponsor. CMBS also have an advantage over other structured asset types as they contain multiple levels of credit enhancements that lessen the risk of principal loss. These levels include: structural enhancement, loan level enhancement, stable income producing properties, and work out plans in case of defaults. This leads to potential uncorrelation to broad markets.

Low Correlation to Equity & Traditional Fixed Income Asset Classes

Correlation based on data from 2008- August 2018. Source: Bloomberg.

	S&P 500	Barclays Agg	HY Corporates	IG Corporate	S&P Preferred
CMBS IG Index	0.026	0.006	(0.002)	0.466	0.023
CMBS IG BBB Index	0.052	(0.015)	0.110	0.280	0.062

CMBS IG Index: Bloomberg Barclays CMBS investment grade total return index. **CMBS IG BBB Index:** Bloomberg Barclays CMBS investment grade BBB total return index. **Barclays Agg:** Bloomberg Barclays U.S. Aggregate Index. **HY Corporates:** Bloomberg Barclays US Corporate High Yield Index. **IG Corporates**: Bloomberg Barclays US Corporate Investment Grade Index. **S&P Preferred:** Standard & Poor's US Preferred Stock Index.

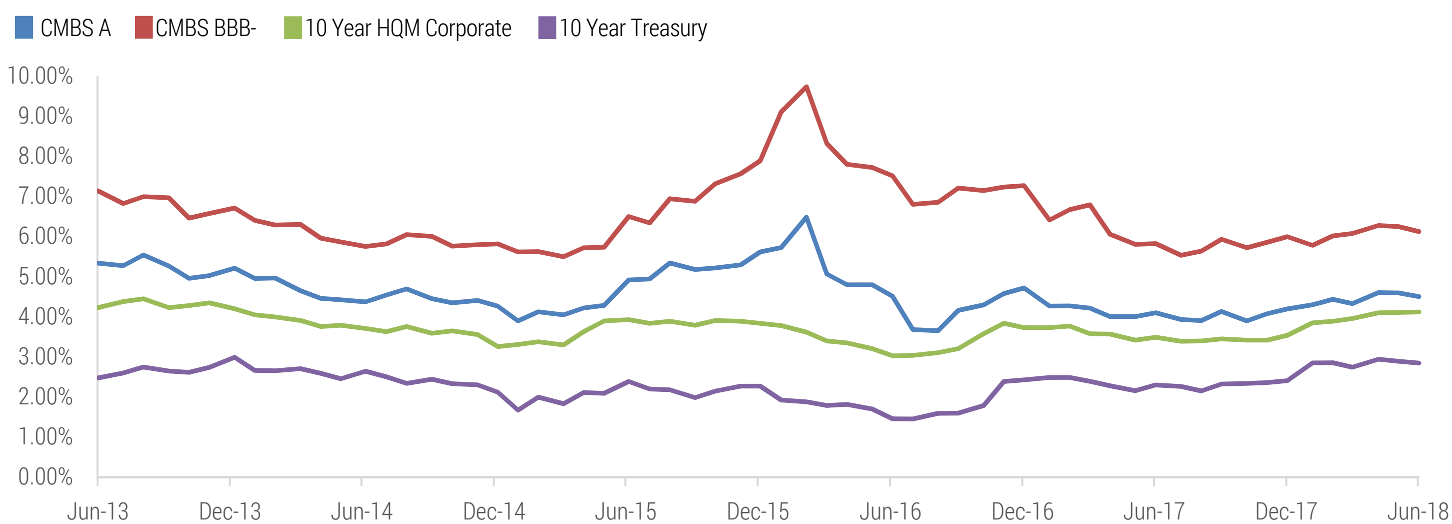
Specifically, we believe active managers are better suited to analyze and manage credit risks, which is important in a covenant-light lending world. By monitoring loans in an active portfolio, managers are in a better position to anticipate, and position for, future credit events/trends/contagion from other sectors while avoiding corporate debt or CMBS positions backed by lower quality mall operators.

Another potential benefit is CMBS have offered higher yields than corporate bonds and U.S. Treasurys. Furthermore, we believe that a combination of corporate debt and CMBS can potentially create improved risk/return profiles.

Historically CMBS have offered higher yields than corporate bonds and U.S. Treasurys.

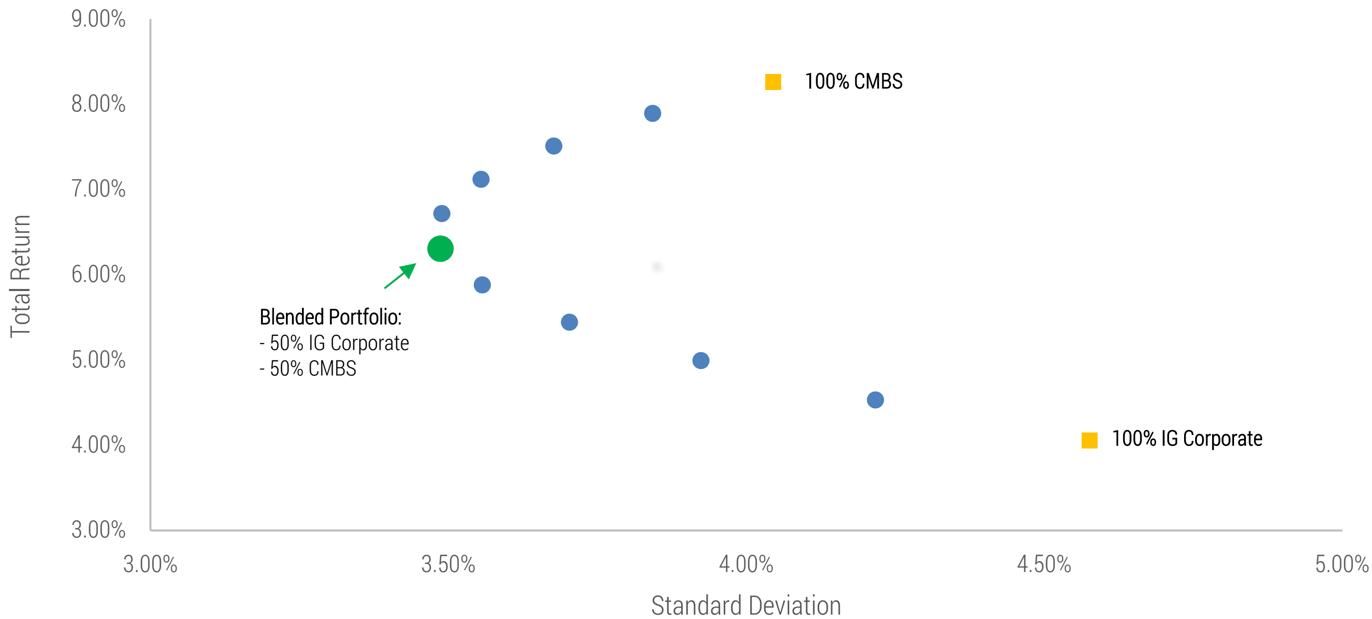
Yield Comparisons: CMBS Have Historically Offered Excess Yields

Correlation based on data from June 2013 to June 2018. Source: JP Morgan, US Department of Treasury

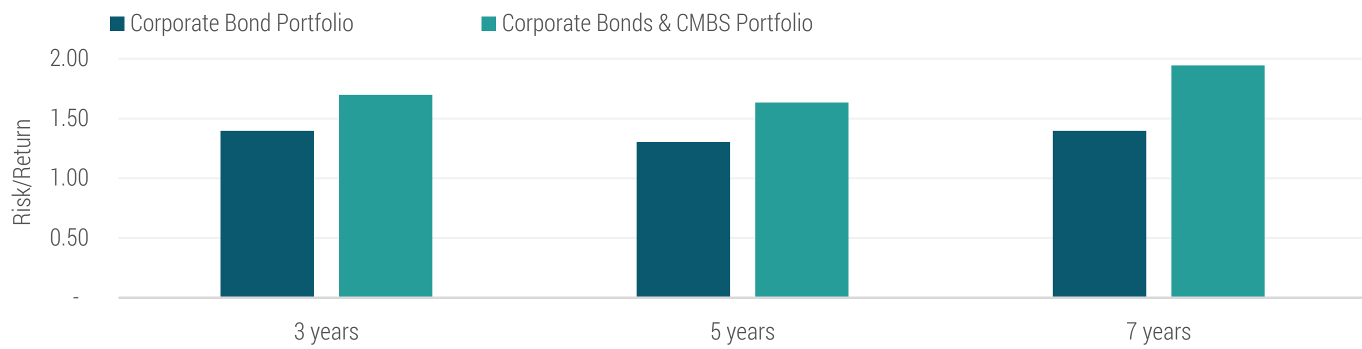


Past performance is no guarantee of future results. The referenced indices are shown for general market comparisons and are not meant to represent any fund. Investors cannot directly invest in an index; unmanaged index returns do not reflect any fees, expenses or sales charges.

Blending CMBS With Corporate Bonds Can Potentially Create Improved Risk/Return Profiles
Correlation based on data from June 2015 to August 2018. Source: Bloomberg.



CMBS Can Enhance Risk-Return of Fixed Income Portfolios
Correlation based on data from August 2011 to August 2018. Source: Bloomberg.



"Corporate Bond Portfolio" consists of 75% Bloomberg Barclays U.S. Corporate Investment Grade Index and 25% Bloomberg Barclays High Yield Index. "Corporate Bonds & CMBS Portfolio" consists of 50% Bloomberg Barclays U.S. Corporate Investment Grade Index, 25% Bloomberg Barclays U.S. High Yield Index, and 25% Bloomberg Barclays CMBS Investment Grade BBB Total Return Index.

Consider Satellite Fixed Income such as CMBS

Even though appetite for fixed income securities has been beset by macroeconomic concerns and interest rate risk, it is our belief that CMBS remain extremely attractive given strong commercial real estate (CRE) fundamentals, conservative underwriting standards, and their structural enhancements. These fundamentals and underlying credit enhancements supporting CMBS collateral can be advantageous and accretive to investors during an up or down market.

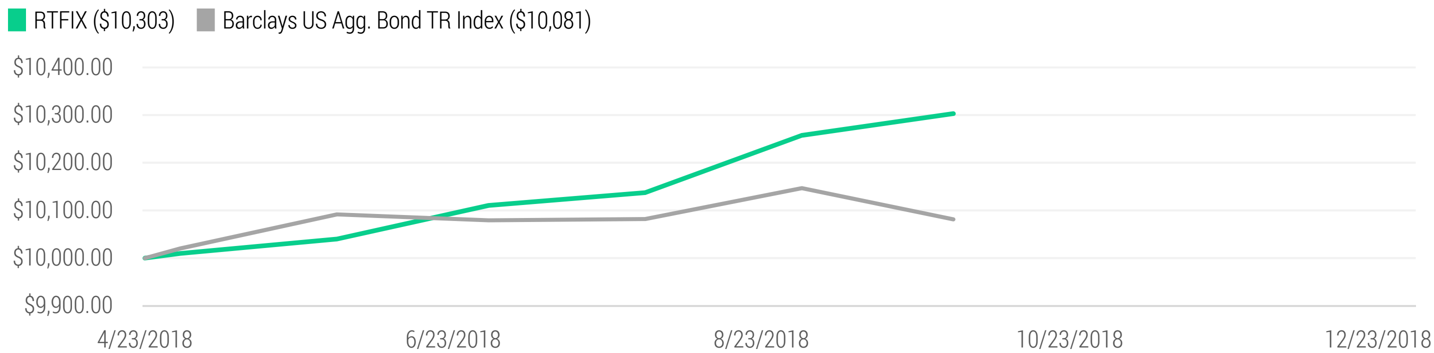
The cornerstone of our outlook on CRE is based on our expectation that consistent demand for CRE will continue to push property level cash flows higher. CRE credit fundamentals will likely remain sound. However, given where we are in the economic cycle, we believe the pace of property performance is likely to moderate. A rising interest rate environment could potentially lead to higher cap rates and borrowing costs.

We conclude that fixed income investors should be hedging against a rising interest rates with satellite fixed income investments such as CMBS. At this point in the cycle, the differences between portfolios with satellite strategies will likely become more apparent and well-positioned active managers will likely outperform.

Rational Income Opportunities Fund

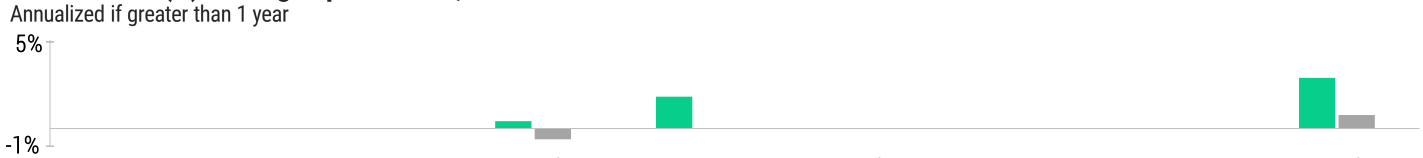
The Rational Income Opportunities Fund (RTFIX) employs an investment strategy that leverages the Sub-Advisor's (Cicero Capital Partners, LLC) experience and rigorous credit analysis in seeking to limit risk, while generating current income through price appreciation and trade-generated gains. The Fund seeks to achieve its investment objective by investing primarily in U.S. agency and non-agency CMBS and other commercial real estate related securities, such as REITs. The Fund utilizes a tactical investment strategy that leverages the Sub-Advisor's commercial real estate and fixed income portfolio management experience. The Sub-Advisor conducts its comprehensive due diligence process on each investment, including, but not limited to, analysis of bond cash flows and analysis of property cashflows, sub-market vacancy and rental rates, potential lease rollovers, and potential capital expenditures on underlying collateral properties.

Growth of $10,000 Investment: Ending September 30, 2018



Performance (%): Ending September 30, 2018

Annualized if greater than 1 year



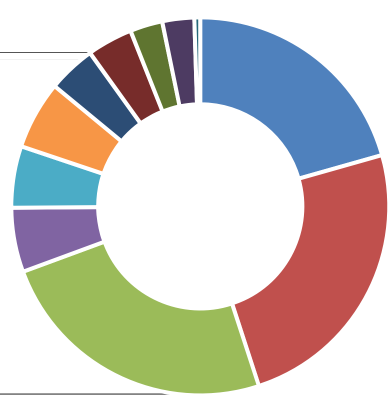
	1 Month	QTD	6 Months	YTD	1 Year	Inception*
Class I	0.44	1.91	n/a	n/a	n/a	3.03
Class A	0.44	1.83	n/a	n/a	n/a	2.90
Class C	0.41	1.62	n/a	n/a	n/a	2.53
Barclays US Agg. Bond TR Index	-0.64	0.02	n/a	n/a	n/a	0.81
Class A w/ Sales Charge	-5.32	-4.06	n/a	n/a	n/a	-3.02

*Inception: 4/23/18

Maximum sales charge for Class A is 5.75%. The Total Annual Fund Operating Expenses were 2.51%, 3.26%, and 2.26% for the A, C, and I share, respectively. The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. Results shown reflect the waiver, without which the results could have been lower. A fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. To obtain the most recent month end performance information or the Fund's prospectus please call 800-253-0412 or visit www.RationalMF.com.

Top Property Types

Office	20.07%
Retail Anchored	23.70%
Multi Family Housing	23.75%
Hospitality Limited Service	5.36%
Mixed Use	5.13%
Retail Unanchored	5.67%
Industrial	3.98%
Hospitality Full Service	3.80%
Mobile Home Park	2.70%
Self Service Storage	2.66%
Other	0.49%



Holdings are subject to change and should not be considered investment advice

Portfolio Characteristics

Number of Holdings	31
Weighted Average Life (CMBS)	4.33
Weighted Average Coupon	4.7
Total loan balance	885,589,287
Loan Concentration (Top 10%)	12.92%

Portfolio Statistics

Standard Deviation	n/a
Sharpe Ratio	n/a
Sortino Ratio (1 year)	n/a

GLOSSARY OF TERMS

Correlation: A statistical measure of how two securities move in relation to each other.
S&P 500 Index: A market capitalization-weighted index that is used to represent the U.S. large-cap stock market.
Standard Deviation: A statistical measure of how consistent returns are over time; a higher standard deviation indicates historically more volatility.
Alpha: A measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.
Beta: A measure of the volatility of a fund relative to the overall market.
Sharpe Ratio: A risk-adjusted measure used to determine reward per unit of risk.
R-Squared: The percentage of a fund's movement that can be explained by movements in its benchmark index.
CMBS IG Index: Bloomberg Barclays CMBS investment grade total return index measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300 million.
CMBS IG BBB Index: The Bloomberg Barclays CMBS investment grade BBB total return index.
Bloomberg Barclays US Aggregate Index: The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.
Bloomberg Barclays US Corporate High Yield Index: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market.
Standard & Poor's US Preferred Stock Index: The S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market.
Morningstar Bank Loan: Bank Loan funds that invest primarily in floating-rate bank loans instead of bonds. In exchange for their credit risk, they offer high interest payments that typically float above a common short-term benchmark.
Morningstar Long-Term Bond: U.S. corporate bonds with maturities of seven years or longer.
Morningstar Intermediate-Term Bond: Bonds that offer higher yields than higher-quality bonds but have a higher risk of default due to issuers' heavy debt burdens and/or business risk.
Morningstar Short-Term Bond: Bonds that mature in one to four years.
Morningstar High-Yield Bond: Bonds that offer higher yields than higher-quality bonds. In addition, high-yield bonds are less sensitive to interest-rate rises but have a higher risk of default.
Morningstar Nontraditional Bond: The non-traditional bond category contains funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe.
Morningstar Multisector Bond: Multisector bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities.
Morningstar Corporate Bond: U.S. corporate bonds with maturities of more than one year and at least $500 million outstanding.
Morningstar Ultrashort Bond: Ultrashort-bond funds that invest mainly in Treasury, mortgage-backed, and corporate bonds.
ICE BofAML AAA US Fixed Rate CMBS Index (US Hedged): The index is a subset of the ICE BofAML US Corporate Master Index tracking the performance of US dollar denominated investment grade rated corporate debt publicly issued in the U.S. domestic market.
SPDR S&P 500 ETF: An exchange-traded fund which trades on the NYSE. SPDR is an acronym for the Standard & Poor's Depositary Receipts, the former name of the ETF. It is designed to track the S&P 500 stock market index. This fund is the largest ETF in the world.

IMPORTANT RISK DISCLOSURES

Investing in the Fund carries certain risks. Investing in CMBS entail various risks: liquidity risks, interest rate risks, market risks, structural risks, geographical concentration risks; and in the case of non-agency CMBS, credit risk. Most CMBS are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the returns to investors in such CMBS. 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's investments in an underlying portfolio of exchange traded funds ("ETFs"), mutual funds and closed-end funds involve certain additional expenses and certain tax results, which would not be present in a direct investment in the underlying funds. The Fund may purchase and sell options on the same types of futures in which it may invest. Options on futures are similar to options on underlying instruments except that options on futures give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell the futures contract, at a specified exercise price at any time during the period of the option. The Funds may invest in securities of real estate investment trusts ("REITs"). REITs are publicly traded corporations or trusts that specialize in acquiring, holding and managing residential, commercial or industrial real estate. Investments in the real estate industry involve particular risks. The real estate industry has been subject to substantial fluctuations and declines on a local, regional and national basis in the past and may continue to be in the future. Some securities held by the Fund may be difficult to sell, or illiquid, particularly during times of market turmoil. Illiquid securities may also be difficult to value. If the Fund is forced to sell an illiquid asset to meet redemption requests or other cash needs, the Fund may be forced to sell at a loss. Using derivatives or borrowing money to purchase securities can create leverage, which can amplify the effects of market volatility on the Fund's share price and make the Fund's returns more volatile. The use of leverage may cause the Fund to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. Hedging is a strategy in which the Fund uses a derivative or other type of security to offset the risks associated with other Fund holdings. There can be no assurance that the Fund's hedging strategy will reduce risk or that hedging transactions will be either available or cost effective.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Rational Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling (800) 253-0412 or at www.RationalMF.com. The prospectus should be read carefully before investing. The Rational Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Rational Advisors, Inc. is not affiliated with Northern Lights Distributors, LLC.

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