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Rational Income Opportunities Fund

RTFAX | RTFCX | RTFIX

For Institutional Use Only – Not For Retail Distribution

Rational Income Opportunities Fund

- The Rational Income Opportunities Fund seeks to **generate current income** by investing primarily in Commercial Mortgage Backed Securities (CMBS) and other commercial real estate structured securities, such as Real Estate Investment Trusts (REITs).

Rational Income Opportunities Fund

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Why CMBS?

CMBS are fixed or floating rate bonds that represent an investment in a portfolio of mortgages on a diverse group of commercial properties. At its core, **CMBS are a real estate investment** because the performance of the underlying properties are the primary driver of the credit performance of any given bond. Because of its securitized structure, CMBS can often be viewed as complex by investors, leading some to avoid the asset class completely. Despite the stable investment opportunities they present:

Yield Enhancement

- Reflected in the spread premium over corporate bonds, often a popular choice for yield seeking investors

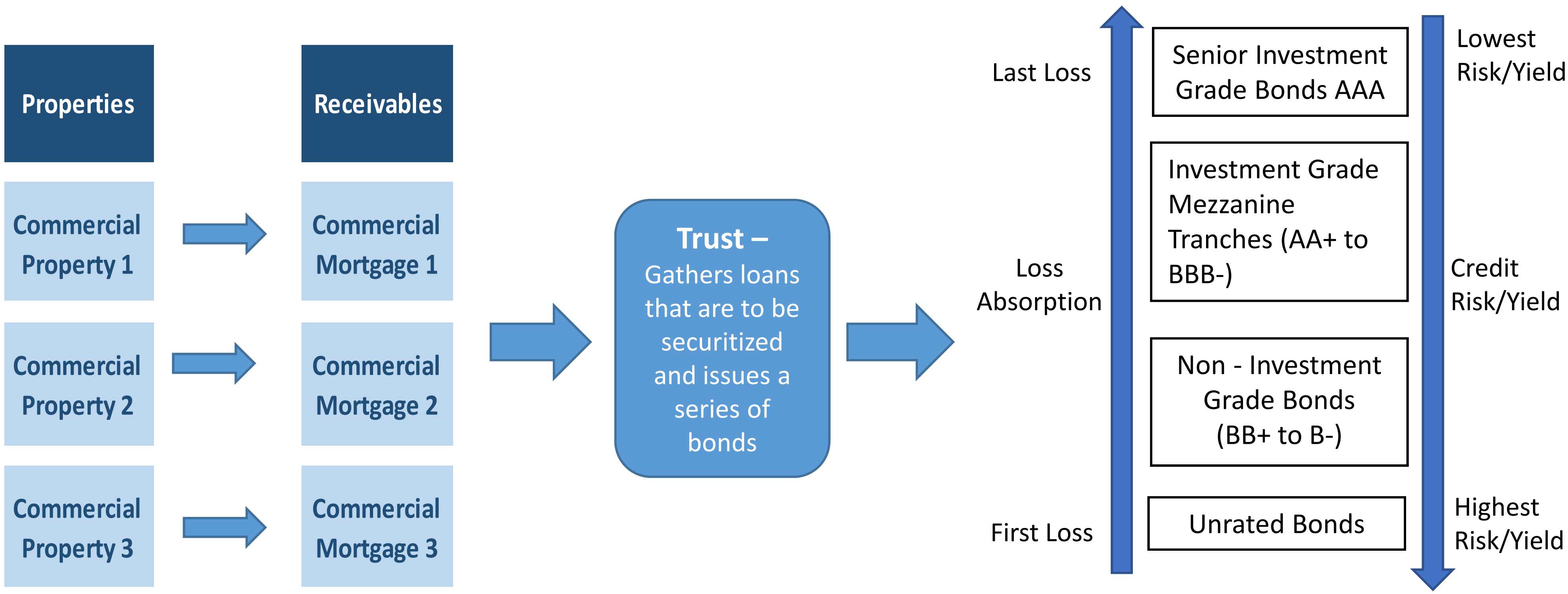
Diversification Benefits

- **Within the CMBS asset class** – Based on the diversity of property locations, property types, tenants, and borrowers
- **Versus other asset classes** – CMBS has shown low long-term correlations to fixed income and equity alternatives
- **CMBS represents alternative asset class exposure** – CMBS are liquid public debt securities that enable investors to gain exposure to commercial real estate

Attractive Risk-Adjusted Returns

- CMBS credit performance is ultimately determined by how well the underlying commercial mortgages perform

CMBS Formation & Structure



Higher-tiered bonds receive interest payments first, while the lower-tiered bonds receive payments only after all accrued interest on higher rated bonds is paid. The same thing occurs with principal payments received. This sequential payment structure is referred to as the **bond cashflow waterfall.**

Typical CMBS Collateral

Office

- Central business district (CBD) versus suburban
- Longer-term leases than most other property types
- Industry risk
- Rollover risk
- High re-leasing costs
- Tenant credit strength and diversity
- Demand generators within the Metropolitan Statistical Area (MSA)

Multifamily

- Conventional garden-style to high-rise.
- Student housing
- Assisted living (seniors)
- Needs-based product
- Low expense ratios
- Desirable because short-term lease structure allows revenues to rise with expenses
- However, limiting factors include their susceptibility to economic downturns and higher Loan-to-Values (LTVs)

Industrial

- The basic revenue of an industrial project is rent
- Product type, construction, area demographics, amenities, location, and market perception drive industrial rental revenues
- Industry risk
- A thorough analysis of lease structure and rollover risk and the relationship of lease rent to market rent is important

Retail

- Retail properties range from needs-based centers (often containing a grocer or other primary consumer demand generators) to unanchored strip centers as well as super-regional malls
- Various dependencies on consumer spending patters
- Lease terms range from five years on average for in-line tenants to up to 20 years for larger anchor tenants

Hotel

- Hotels are typically the riskiest property because of the short-term nature of cashflow, and the operational aspect of performance
- No leases + fixed expenses = cashflow volatility
- The flag and operator affect value
- Income can also be derived from amenities such as food and beverage and other guest services

Source: Wells Fargo Securities

Types of CMBS Deals

Multi-Borrower (Conduit/Fusion)

- Diversified pools of mortgages
- Generally fixed-rate loans pay fixed-rate tranches
- **Outstanding: $343 Billion**

Multifamily

- Apartment backed
- Variety of structures and securities
- GSE guaranteed and unguaranteed tranches
- **Outstanding: $338.5 Billion**

Single-Borrower

- Usually secured by one loan
- Backed by institutional quality collateral
- Most often fixed-rate loans pay fixed-rate tranches
- **Outstanding: $98.6 Billion**

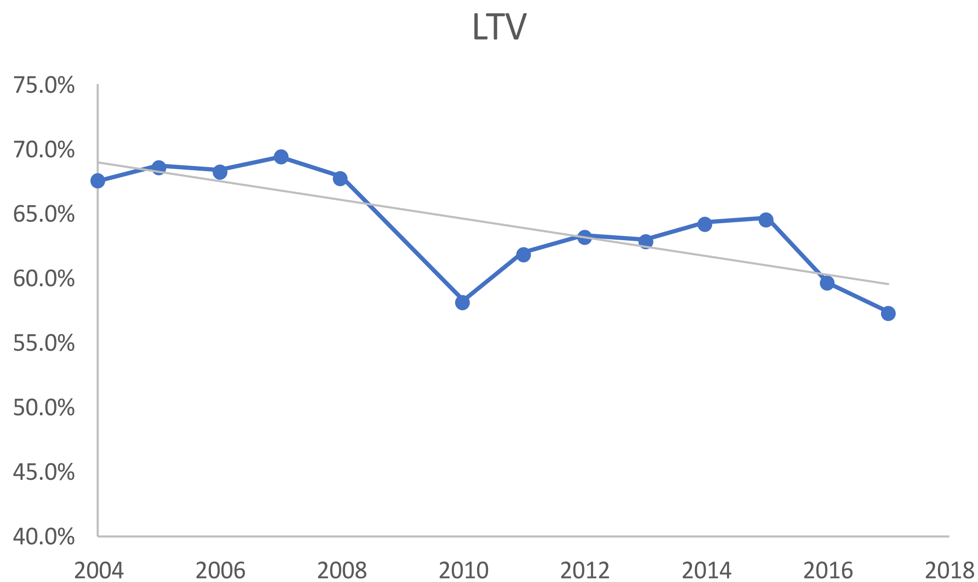
Large Loan Floating-Rate

- 10-15 loans or less
- Five-year loan terms
- Low leverage
- Floating-rate loans pay floating-rate tranches
- **Outstanding: $4.6 Billion**

CRE CLO

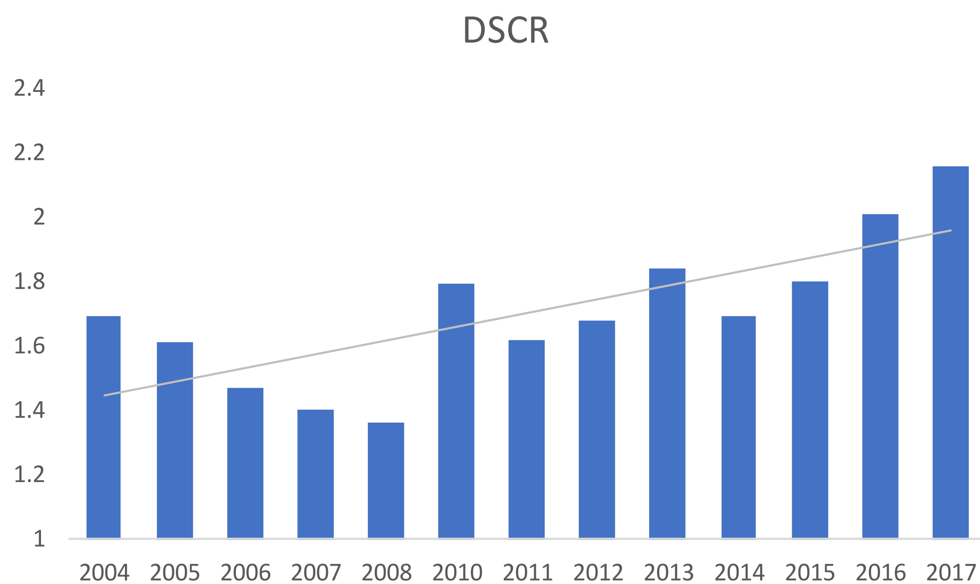
- Bridge loan collateral
- three- to five-year loan terms with extension options
- CLO features (ramping, reinvestment, protection tests)
- **Outstanding (Post-Crisis): $8.4 Billion**

Collateral Credit Metrics Have Improved



Source: JP Morgan

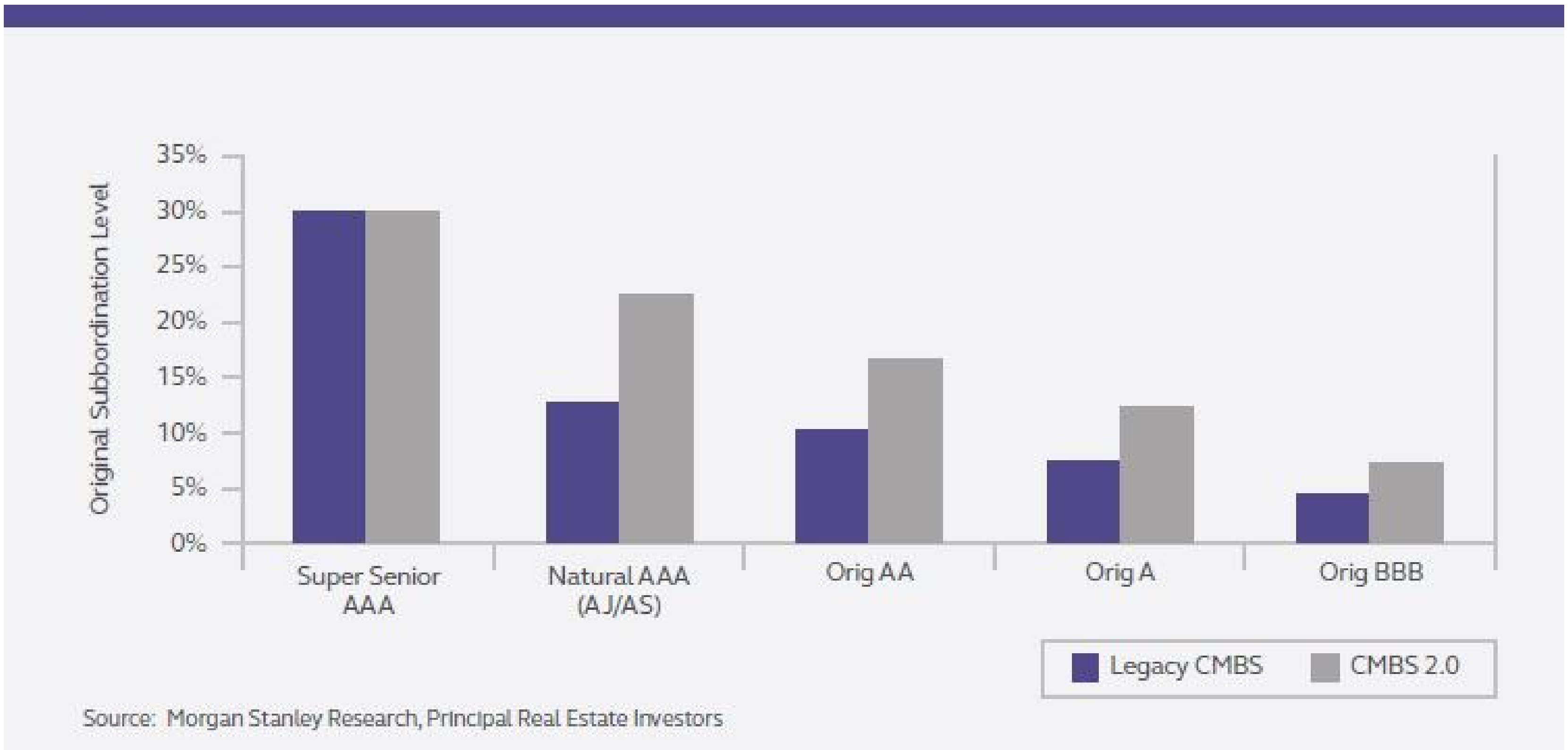
- ❖ **Loan-to-Value (LTV)** - Lending risk assessment ratio that describes the size of a loan compared to the value of the property securing the loan.
  - Higher LTV is viewed as higher risk



Source: JP Morgan

- ❖ **Debt Service Coverage Ratio (DSCR)** - Debt Service Coverage Ratio (NOI) – A measure of cash flow available to pay current debt obligation
  - DSCR = Net Operating Income/Total Debt Service
  - Higher DSCR is viewed as lower risk
  - Steadily increasing since crisis levels

Deal Structure Has Improved



Legacy CMBS is defined as bonds issued prior to 2009. CMBS 2.0 bonds were issued post 2009. The credit enhancement in deals improved following the recession.

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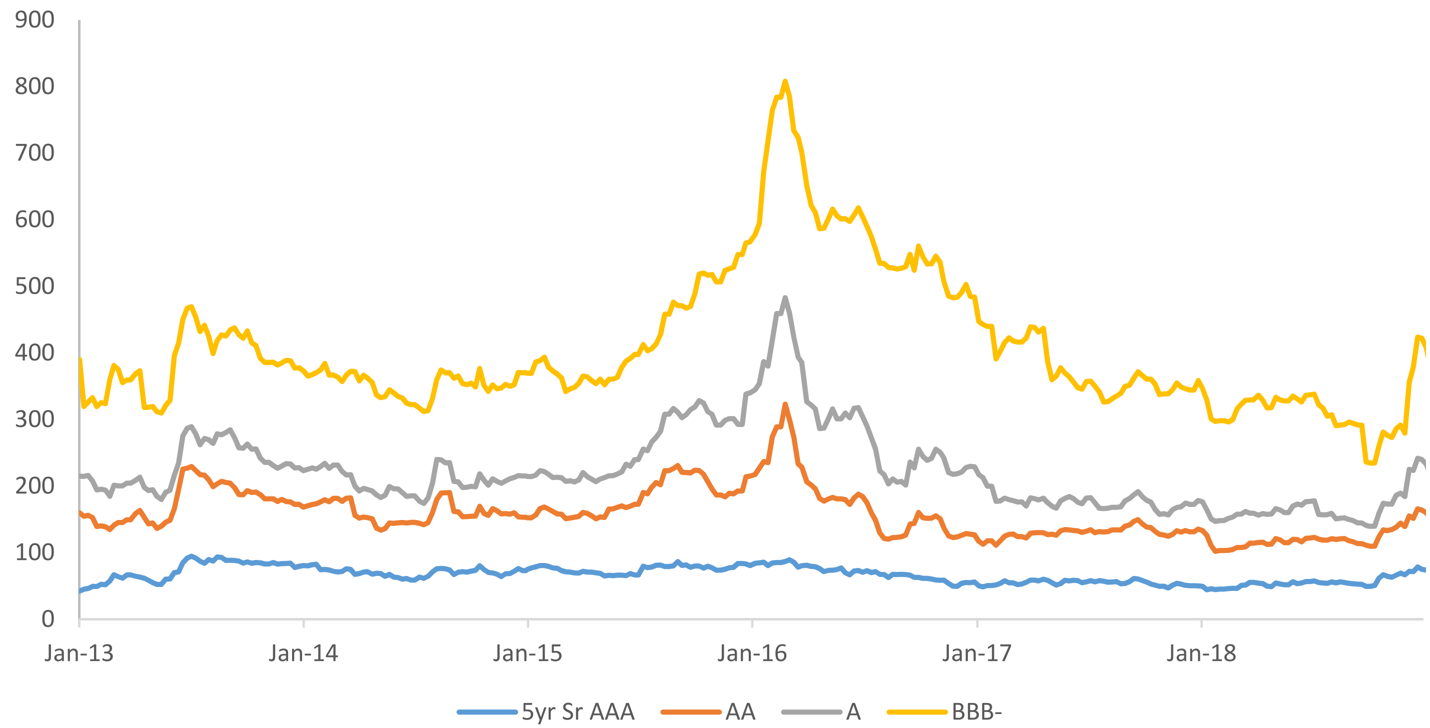
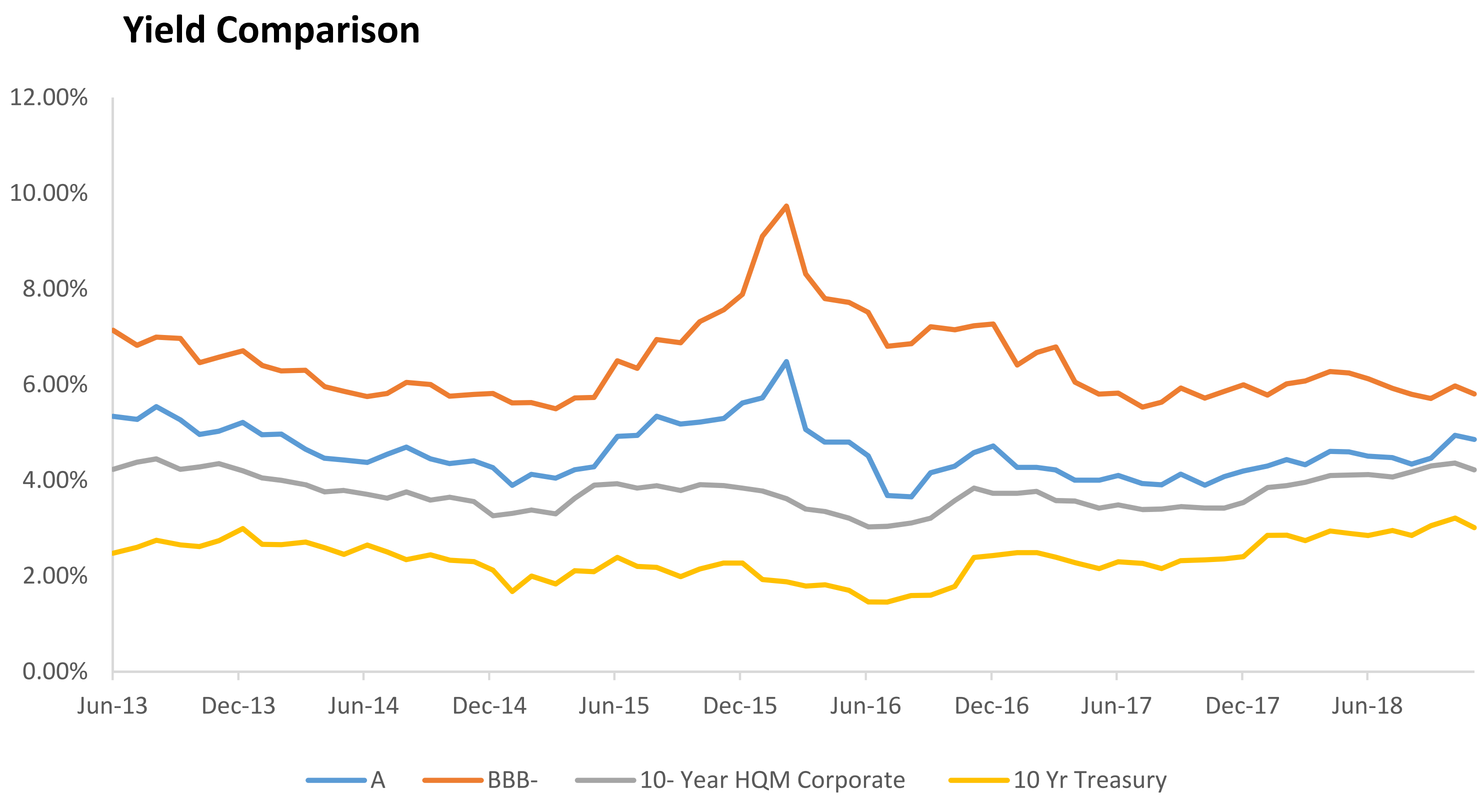
Comparing CMBS Spreads by Rating

New Issue CMBS – Spread to Treasurys



Source: JP Morgan

CMBS Offers Higher Yield Than Corporate Bonds



Source: U.S. Department of the Treasury, retrieved from FRED

High quality market (HQM) uses data from a set of high quality corporate bonds rated AAA, AA, or A that accurately represent the high quality corporate bond market.

Focused Investment Strategy

Commercial Mortgage Market - $3.81 Trillion	• Total outstanding commercial mortgage market
Commercial Mortgage Backed Securities (CMBS) - $913 Billion	• CMBS comprises approx. 12.5% of total commercial mortgage market
Non-Agency CMBS - $504 Billion	• Generally focus on fixed-rate multi-borrower conduit/fusion, SASB, floating rate and CRE CLO deals
Non-Agency Credit CMBS - $117 Billion	• Focus on credit sensitive bonds which generate more yield
Credit Modeling	• Re-underwrite the collateral of each deal
Odd-lot Size or Risk Sharing	• Generally ignored by institutional buyers • Often trade at a discount to round lot pricing
Complexity	• Each loan must be evaluated from a structural standpoint as well as from a property standpoint

RTFAX Focus (Seeking 5-8% net yield target with potential for price appreciation on discounted securities)

Source: Wells Fargo Securities, JPMorgan

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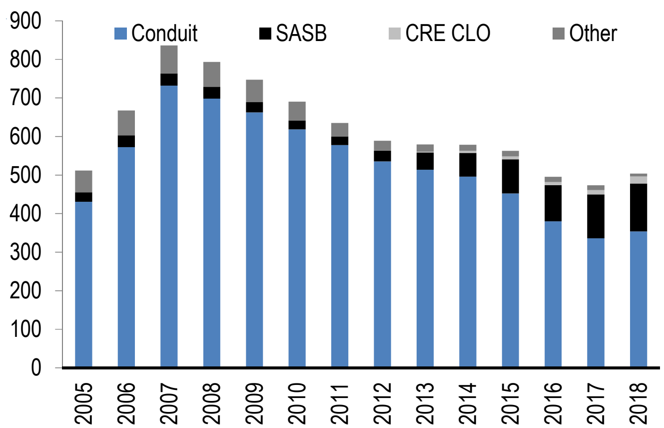
Market Size

The Fund's primary focus is on the mezzanine tranches (AA+ to BBB- rated) of Conduit Deals due to the higher yields offered while maintaining a strong credit profile. The conduit CMBS market is robust with over $350 billion outstanding.

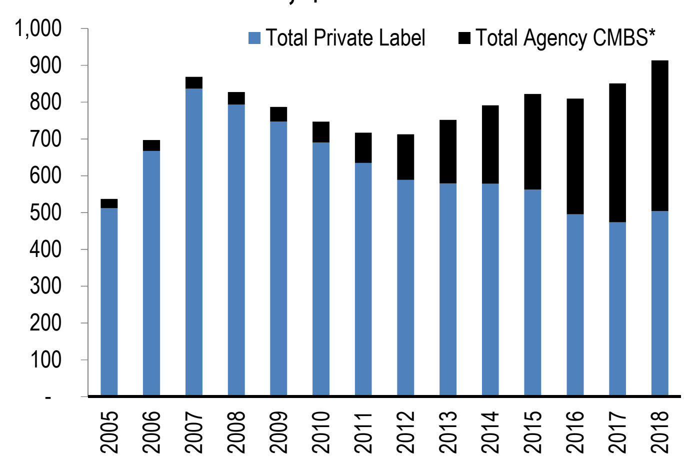
Conduit CMBS Outstanding by Current Ratings, $ Billion

CMBS Outstanding, $Billion



Source: JP Morgan

YTD Issuance, $Billion



Source: JP Morgan

Investment Process

CMBS Investment Process:

1. Investments sourced through long-term relationships with over 25 different dealers. Focus on odd lot, limited competition or distressed selling situations

2. Loan-by-loan analysis of each investment's underlying collateral evaluating loan structure and property valuation

3. Loan level assumptions are modeled in existing bond structure to evaluate stability of expected cashflows

4. **Portfolio Surveillance**

5. Evaluate investment performance versus original investment thesis, and either add to, hold, or sell position depending on stage

Portfolio Surveillance:

- Each security is constantly monitored for collateral improvement or signs of distress

- Monthly remittance reports are reviewed for loan payoffs, changes in payment status, and changes in property level financial performance

- Specially serviced loans, if applicable, are reviewed for progress against anticipated workout/disposition strategy

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Sample Deal: GSMS 2015-GC34

Loan Summary		
Loan Concentration	**Original**	**Outstanding**
Number of Loans	57	57
Collateral Balance	$ 848,384,739	$ 835,877,714
Average Loan Size	$ 14,883,943	$ 14,664,521
Amortization Type	**# Loans**	**Outstanding**
Amort Balloon	24	235,271,407
Full IO	3	72,100,000
Partial IO Balloon	30	528,506,307
Loan Credit Ratios	**Cutoff**	**Current**
Weighted Average Coupon (WAC)	4.68%	4.67%
Loan-to-Value (LTV)	64.46%	64.74%
Debt Service Coverage Ratio (NOI)	1.65	1.78
Debt Service Coverage Ratio (NCF)	1.52	1.63

Source: Bloomberg

GSMS 2015-GC34					
Tranche	**Fitch**	**Original Amount**	**Current Amount**	**Orig Sub**	**Curr Sub**
AS	AAA	$40,298,000	$40,298,000	25.250	25.628
B	AA-	$48,782,000	$48,782,000	19.500	19.792
C	A-	$42,419,000	$42,419,000	14.500	14.717
D	BBB-	$51,964,000	$51,964,000	8.375	8.500
E	BB-	$23,331,000	$23,331,000	5.625	5.709
F	B-	$8,483,000	$8,483,000	4.625	4.694
G	NR	$39,238,739	$39,238,739	0.000	0.000
Source: Bloomberg		**$848,384,739**	**$835,877,714**		

✓ Mortgage collateral insulated by 64.7% loan-to-value (LTV). Bonds further insulated by structural credit support of 8.5% to 19.7%.

- Weighted Average Coupon (WAC) - Weighted-average gross interest rates of the pool of mortgages that underlie the security.
- Loan-to-Value (LTV) - Lending risk assessment ratio that describes the size of a loan compared to the value of the property securing the loan. Higher LTV is viewed as higher risk.
- Debt Service Coverage Ratio (NOI) – A measure of cash flow available to pay current debt obligation DSCR=Net Operating Income/Total Debt Service.
- Debt Service Coverage Ratio (NCF) – A measure of the cash flow available to pay current debt obligations DSCR=Net Cash Flow/Total Debt Service.

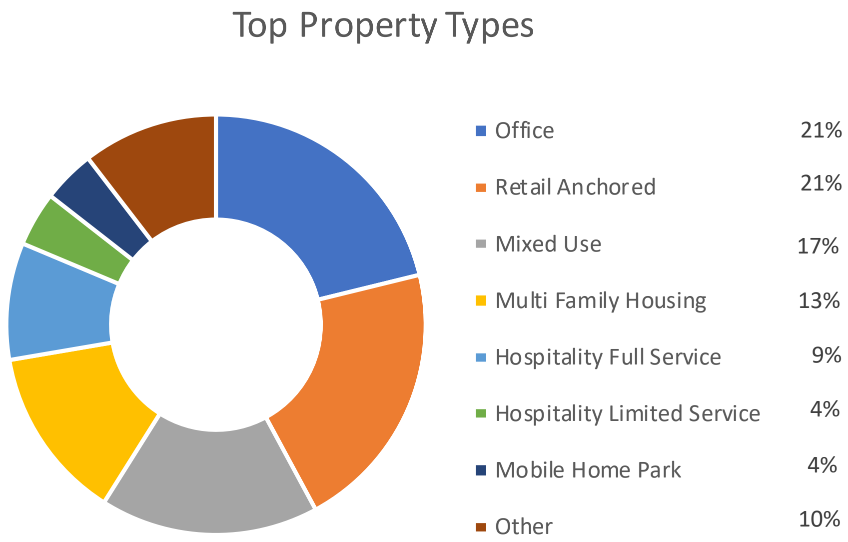
GSMS 2015-GC34 Top 10 Loans

GSMS 2015-GC34 - Top 10 Loans									
Loan Name	Total Loan	Trust Portion	Recent Val(USD)	LTV	DSCR	Property Type	State	City	Description
Illinois Center	260,000,130*	100,000,000	390,000,000	67%	1.83	Office	IL	Chicago	2 class A urban office buildings; combined $2.1MM SF
750 Lexington Avenue	129,999,900*	84,500,000	300,000,000	43%	1.07	Mixed Use	NY	New York	31-story class A office and retail building
Hammons Hotel Portfolio	250,800,000*	69,447,478	367,320,502	65%	2.22	Mixed Use	VR	Var	7 branded hotels in various states
Parkside at So7	54,100,000	54,100,000	75,800,000	71%	1.56	Mixed Use	TX	Fort Worth	300-unit class A multifamily complex
444-450 West 56th Street	30,000,000	30,000,000	160,000,000	19%	3.05	Other	NY	New York	Private school
Denton Center	29,750,000	29,750,000	38,500,000	77%	1.96	Retail Anchored	TX	Denton	335,102 SF grocery-anchored retail center
Bluejay Grocery Portfolio	27,448,750	27,448,750	37,400,000	73%	1.72	Retail Anchored	VR	Var	4 grocery-anchored retail properties
The Heights at State College Phase III	24,000,000	24,000,000	32,300,000	74%	1.88	Multi Family Housing	PA	State College	Garden style apartments
Woodlands Corporate Center	23,300,000	23,300,000	33,200,000	70%	1.59	Mixed Use	VR	Var	2 office properties and an industrial property
Festival at Sawmill Centre	23,500,000	22,462,964	31,500,000	71%	1.43	Retail Anchored	OH	Dublin	200,000 SF retail center

Source: Bloomberg
* Total loan is split AB/PariPassu with 2 other deals.


One Illinois Center


750 Lexington Ave



Credit Evaluation

Deutsche Bank's CMBS credit model applies three scenarios – DBA (Expected-Base), DBU (Bull-Upside), **DBE (Bear-Downside)** – to project values and ultimately assess default and extension outcomes for each loan.

GSMS 2015-GC34						
Tranche	Fitch	Original Amount	Current Amount	Credit Support	DBE Loss Assumption	Principal Recovery
A	AAA	$593,869,000	$581,361,975	254,515,739	-	593,869,000
AS	AAA	$40,298,000	$40,298,000	214,217,739	-	40,298,000
B	AA-	$48,782,000	$48,782,000	165,435,739	-	48,782,000
C	A-	$42,419,000	$42,419,000	123,016,739	-	42,419,000
D	BBB-	$51,964,000	$51,964,000	71,052,739	-	51,963,991
E	BB-	$23,331,000	$23,331,000	47,721,739	-	23,330,994
F	B-	$8,483,000	$8,483,000	39,238,739	-	8,483,000
G	NR	$39,238,739	$39,238,739	-	(28,230,850)	11,007,889
Source: Bloomberg		**$848,384,739**	**$835,877,714**			

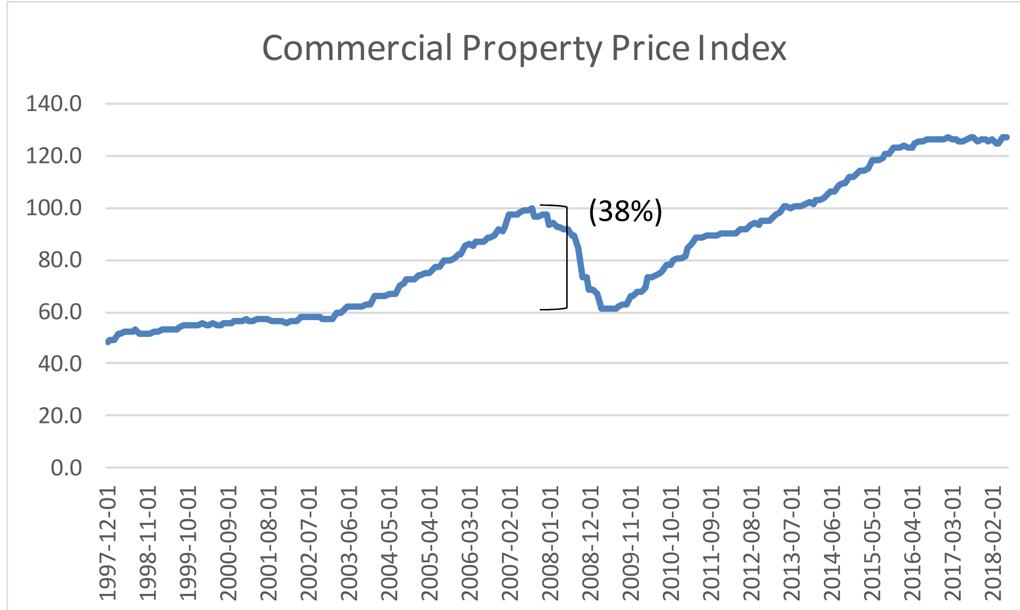
- Using the bear case scenario (DBE), the Wall Street loss model indicates $28 million of losses
- In this case, Rational's loss assumptions were higher than those projected using the DBE scenario
- In either case, the G bond is expected to absorb the entire amount of losses. Class D, with $71,052,739 of credit support, is not projected to take losses. Similarly, the C bond would not face losses unless losses to the entire deal exceed 14.7%

The above example is hypothetical, and there is no guarantee that any investment strategy will not incur losses.

Historical Scenario Analysis : 2008 Subprime Crisis

We take a look at our investment in the BBB- tranche of GSMS 2015-GC34, the same deal illustrated on the previous slide, and stress the credit support against the 2008 crash:

- From peak to trough, the commercial property price index fell 39% during the 08/09 Subprime Crisis
- Using the collateral balance of $835 million and a 64.7% LTV, our implied collateral value is $1,291 million
- Applying a (39%) loss to our implied collateral value would lead to losses of (5.47%) to the current balance of collateral, below the 8.5% credit support of our BBB- bond. The bond would not take losses in this scenario



Subprime Crisis	
1,291,150,976.83	Implied Collateral Value
-38.80%	Applied Loss
790,184,397.82	Implied Collateral Value
(45,693,316.31)	Implied losses
-5.47%	% Loss

GSMS 2015-GC34

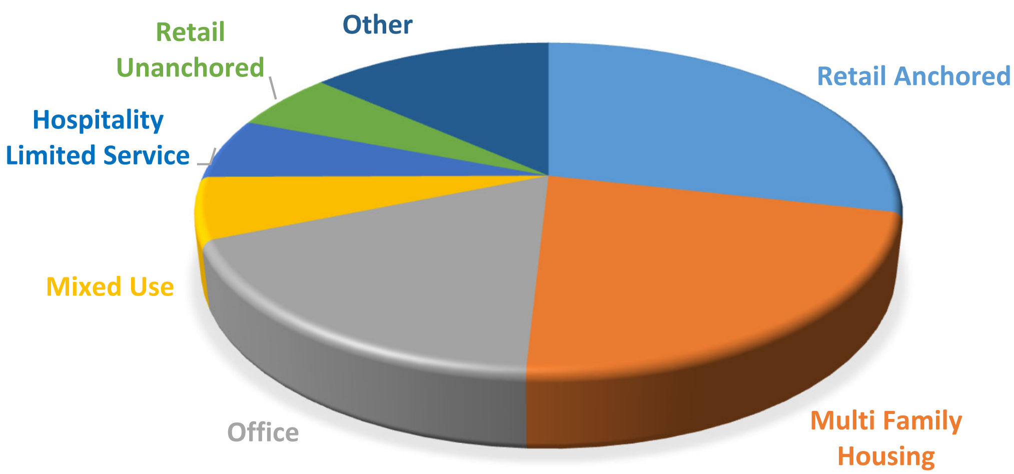
Tranche	Fitch	Original Amount	Current Amount	Credit Support	Subprime Crisis Assumption	Principal Recovery
A	AAA	$593,869,000	$581,361,975	254,515,739	-	593,869,000
AS	AAA	$40,298,000	$40,298,000	214,217,739	-	40,298,000
B	AA-	$48,782,000	$48,782,000	165,435,739	-	48,782,000
C	A-	$42,419,000	$42,419,000	123,016,739	-	42,419,000
D	BBB-	$51,964,000	$51,964,000	71,052,739	-	51,963,991
E	BB-	$23,331,000	$23,331,000	47,721,739	-	23,330,994
F	B-	$8,483,000	$8,483,000	39,238,739	(6,454,577)	2,028,423
G	NR	$39,238,739	$39,238,739	-	(45,693,316)	(6,454,577)
Source: Bloomberg		**$848,384,739**	**$835,877,714**			

The above example is hypothetical, and there is no guarantee that any investment strategy will not incur losses.

Drivers of Portfolio Income

Investments in CMBS Securities	❖ Short duration legacy CMBS credit bonds where we can anticipate price appreciation through due diligence and deleveraging of the underlying loans ❖ Investment Grade short duration CMBS that generate yields from fixed/floating monthly coupon payments ❖ Newly issue investment grade CMBS when market is suffering from dislocation and illiquidity
Advantages in Sector	❖ Managers are focused veterans of CMBS sector with relationships with 25 different CMBS issuers/lenders/broker dealers, commercial real estate investors and operators, sales and leasing brokers, special servicers and asset managers, and competing CMBS investors ❖ CMBS exhibit multiple layers of credit support before the debt level is underwater and becomes a risk to principal ❖ Combining experienced asset selection within the CMBS sector helps us preserve capital and monthly income
Interest Rate and Credit Hedging Instruments	❖ Index and ETF trades to hedge fixed rated positions and protect gains and principal from rising interest rate risk ❖ Exchange traded interest rate Treasury futures, interest rate swaps, and Treasurys

RTFAX Portfolio Characteristics



Geographical Distribution – Largest 20 States

- Broad diversification across most of United States

Rank	State	Current Balance	% Total by Curr Bal
1	NY	3,848,523,729	14.3%
2	CA	3,625,272,320	13.5%
3	TX	2,772,108,374	10.3%
4	FL	1,691,539,180	6.3%
5	IL	1,077,118,383	4.0%
6	MI	941,059,249	3.5%
7	GA	906,207,599	3.4%
8	NJ	874,806,662	3.3%
9	OH	867,300,353	3.2%
10	PA	859,237,351	3.2%
11	MD	790,068,484	2.9%
12	NC	745,855,887	2.8%
13	WA	593,921,591	2.2%
14	AZ	543,226,300	2.0%
15	NV	523,417,787	2.0%
16	SC	517,354,968	1.9%
17	CO	500,892,142	1.9%
18	DC	463,134,808	1.7%
19	MA	441,752,230	1.6%
20	IN	422,909,050	1.6%

Favorable Credit Characteristics

	Current	Cutoff
Duration	3.87	
WAC	4.77	4.79
LTV	62.73	63.97
DSCR (NOI)	2.02	1.89
DSCR (NCF)	1.90	1.50
Debt Yield (NOI)	12.0%	11.1%
Debt Yield (NCF)	11.2%	10.4%

Source: Bloomberg

About Cicero Capital Partners

- Cicero Capital Partners, LLC ("Subadvisor") specializes in alternative asset management strategies, with an expertise in commercial real estate, commercial mortgage backed securities, agency mortgages, and other public and private commercial real estate related securities.

- Principals have a combined 38 years of experience in asset management and have invested $2.0 billion in CMBS, commercial real estate assets, whole loans and B-notes throughout the United States.

- The Subadvisor has managed a substantially similar CMBS strategy in its CCP Total Return Fund. The CCP Fund has consistently been recognized by Prequin and BarclayHedge as a top performing credit strategy.

CCP Total Return Fund

FEATURED AS A

TOP PERFORMING CREDIT STRATEGY FUND

2017 Preqin Alternative Assets Performance Monitor

preqin

Cicero Capital Partners

CCP TOTAL RETURN FUND

FEATURED AS A

TOP PERFORMING CREDIT STRATEGIES FUND IN 2015

2016 Preqin Global Hedge Fund Report

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Cicero Capital Partners

CCP TOTAL RETURN FUND

FEATURED AS A

TOP PERFORMING CREDIT STRATEGY FUND JANUARY 2012 - DECEMBER 2014

2015 Preqin Global Hedge Fund Report

preqin

Investment Team

Bob Neighoff
Managing Partner

- **Over 22 years of experience in fixed income security trading and portfolio management, commercial real estate lending, investing, and asset management**
- **Previously, Senior Portfolio Manager at VERO Capital Partners**
  - Responsible for investments of a distressed fixed income fund focusing on CMBS with assets over $100 million
  - Created and managed agency CMBS warehouse lending strategy that generated IRRs of 55%
- **Former Principal in the Real Estate Finance Group at American Capital**
  - Invested in over $1.1 billion of credit CMBS
  - Originated high yield commercial investments in mezzanine debt, b-notes, and equity partnerships
  - Negotiated repo financing and TRS facilities for fixed income portfolio
  - Monitored and maintained hedges for portfolio with interest swaps, futures, and CDS
- **Former Commercial Mortgage Backed Securities Trader for the Royal Bank of Scotland**
  - Trader of CMBS, Fannie Mae DUS, GNMA Multifamily securities, and CMBX
  - Syndicated over $10.0 billion in new issue fixed and floating rate collateral
- **University of Maryland, BA English, Minor in Finance & Accounting**

Investment Team

Evan Kurtz
Partner

- **Over 20 years of experience in CMBS investing and asset management, commercial real estate lending, underwriting, research and asset management**
- **Former Principal in the Real Estate Finance Group at American Capital**
  - Directed secondary CMBS trading activities, investing over $20 million in controlling CMBS bonds (post recession) resulting in returns in excess of 2.5x invested equity
  - Asset managed portfolio of 19 CMBS control deals for which ACAS was CCR. Directed special servicing strategy on over 500 defaulted assets across the portfolio
  - Oversaw relationships with special servicers, third party brokers and other CCR's. Negotiated fee splitting agreements with special servicers and consulting agreements with brokers resulting in over $42 million of income
- **Former Associate Director in KPMG's structured finance group**
  - Managed all aspects of an engagement covering a bulge-bracket investment bank's CMBS issuance program
  - Modeled bond cash flows and conducted due diligence on all underlying collateral for over 25 CMBS deals
- **Williams College, BA Economics**

Summary & How To Invest

We are experienced portfolio managers that specialize in alternative asset management strategies, with expertise in commercial real estate assets, commercial mortgage backed securities, agency mortgages, and other public real estate related securities and investments.

We are steadfastly committed to a preservation of principal approach to investing in today's volatile markets.

How to Invest

Share Class	Ticker	Minimum Investment	CUSIP	Net Expense*	Gross Expense*
Class A	**RTFAX**	$1,000	628255671	2.0%	2.5%
Class C	**RTFCX**	$1,000	628255663	2.8%	3.3%
Institutional	**RTFIX**	$1,000	628255655	1.8%	2.3%

*The Fund's investment advisor, Rational Advisors, Inc. (the "Advisor") has contractually agreed to waive all or a portion of its management fee and/or reimburse certain operating expenses of the Fund to the extent necessary in order to limit the Fund's total annual fund operating expenses (after the fee waivers and/or expense reimbursements, and exclusive of acquired fund fees and expenses, brokerage costs, interest, taxes and dividends, and extraordinary expenses such as litigation or reorganizational costs) to not more than 1.75%, 2.00%, and 2.75% of the Institutional Shares, Class A Shares, and Class C Shares daily net assets, respectively, through April 30, 2019

RISK CONSIDERATIONS:

Past performance is not a guarantee of future results.

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. and Cicero Capital Partners are not affiliated with Northern Lights Distributors, LLC.

Investing in the Fund carries certain risks. Investing in CMBS entails 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. 4196-NLD-1/28/2019

rationalfunds

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