Performance update – Assessing the distinct headwinds of 2019

Thus far in 2019, the ACM Dynamic Opportunity Fund has encountered some distinct headwinds that have dramatically affected performance. We wanted to make sure our investors understand the circumstances affecting performance this year, discuss the root causes, and importantly what we are doing to address them.

After two very good years, when did the underperformance start?

The first major hit that caused a negative performance impact occurred right at the onset of the turn of the calendar. Recall that in December 2018, the stock market plunged more than -10%. At the time, it was the worst December performance for the market since 1931 – so it was nearly a '*100-year flood*'. Our Fund performed admirably during the adverse market conditions as our *dynamic hedge model* helped us move our net market exposure to 0% early in the month. As such, the Fund was down less than one percent during the selloff.

While that was a great example of our hedging strategy helping to protect investors (at a time when most long/short funds did a poor job at this), it also meant that as the calendar hit 12/31, the Fund's market exposure was still at zero percent. What transpired next was the stock market staged a "V-bottom" and a furious rally in January 2019 while the Fund was fully hedged. Of course, we reduced our hedges as our hedge model adjusted, but a significant degree of relative underperformance (vs. the broad market) was cemented for Q1.

Q2 saw mixed performance for a couple of reasons. First, many of our stocks that had runup substantially during the first quarter took a breather and went through consolidations. Also, the broader market had a pullback in May of roughly -7%, and then made another "V-bottom". The Fund added hedges quickly in early May but had to take them off at losses as a result of the quick rebound.

But it was Q3 that saw another historic event, this time affecting many of the market leading stocks that our Fund does a good job identifying and participating in. For the sake of ease here, let's call these stocks Momentum stocks – not in the sense of speculative stocks, but rather by the definition that many momentum indexes use whereby they rank the top performing stocks over any rolling 12-month period. Goldman Sachs tracks its own Momentum index and just reported that since August 27, this momentum factor declined by -14% in just two weeks. This ranks in the 1st percentile of (negative) returns since 1980. As one can imagine, when you run a portfolio of leading stocks an event such as this can have a dramatic effect on short-term performance.

What caused this tectonic shift/rotation?

The precursor to any unwind of this magnitude is the buildup of portfolio concentration that often occurs, primarily among hedge funds, but also momentum traders and aggressive growth mutual funds. Then, when some event or catalyst surfaces, it can cause a cascading reaction with herd-like movement among traders and portfolio managers. In this case, the perception of a slowing economy had buoyed high-growth stocks for months. When those perceptions changed, due to perceived improvement in China-US trade talks and a better-than-feared ISM Services Index report, it sparked a spike in bond yields and an historic rotation out of secular growth leaders and into cyclical value laggards. Since the Fund focuses on market leaders, it did not own any of the ladder stocks (think: beaten down retailers, energy stocks, and commodity plays).

What has management done to address the issues?

Since we are always focused on managing risk, we did not sit by idly and predict that when the selloff runs its course, these stocks will bounce back and the Fund will be okay. Rather, we reduced our exposure to the cohort of stocks most effected, and searched for new breakouts in other areas of the market that met our investment criteria. As such, the Fund has rebalanced its portfolio which has served to increase factor diversification (growth vs. value) to a large extent.

Going forward, we will continue to monitor our screens for emerging areas of new leadership. If there are new groups of stocks poised to lead the next leg higher in the market, our Fund has demonstrated the ability to uncover these opportunities quickly. That is one of the advantages of the flexible investment philosophy of the Fund – we have no predilection for growth vs. value stocks, large-cap vs small-cap, etc. Our only goal is to find stocks with market leading characteristics and profit from said leadership.

Thank you for your continued support. We value your business and want to emphasize that we are taking every measure imaginable to address the above issues. Please do not hesitate to reach out to Dave, Evan, or myself to further discuss any questions or concerns you may have.

Sincerely,

Jordan Kahn, and the entire team at ACM Funds

Defined Terms: Long– the holder of the position owns the security and will profit if the price of the security goes up. Short- Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed. Short selling is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit.

Investors are not able to invest directly in the indices referenced and unmanaged index returns do not reflect any fees, expenses or sales charges. For current performance information, please visit our performance page: http://acm-funds.com/dynamic-fund-performance/

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

ETF's are subject to specific risks, depending on the nature of the underlying strategy of the fund. These risks could include liquidity risk, sector risk, as well as risks associated with fixed income securities, real estate investments, and commodities, to name a few. Investments in foreign securities could subject the Fund to greater risks including, currency fluctuation, economic conditions, and different governmental and accounting standards.

Investors should carefully consider the investment objectives, risks, charges and expenses of the ACM Dynamic Opportunity Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-844-798-3833. The prospectus should be read carefully before investing. The ACM Dynamic Opportunity Fund is distributed by Northern Lights Distributors, LLC, member."http://www.finra.org/" FINRA. "http://www.sipc.org/" SIPC. Northern Lights Distributors, LLC and Ascendant Capital Management, LLC are not affiliated.

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