THE BTS TACTICAL FIXED INCOME FUND IN THE CONTEXT OF A BROADER PORTFOLIO

by Matthew Pasts, CMT, CEO, BTS Asset Management, Inc.

In our experience, advisors often work to educate their clients about the importance of diversification across asset classes.

Given what we believe to be the importance of overall portfolio diversification, a broader portfolio context may be important to consider when evaluating any potential investment.

Find Opportunity

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A 10-Year Historical Perspective

Introduction

Advisors often work to educate their clients about the importance of diversification across asset classes. We believe advisors sometimes must guard against investors' enthusiasm for one asset class—perhaps one that's recently performed well—and encourage continued diversification over time.

Given what we believe to be the importance of overall portfolio diversification, a broader portfolio context may be important to consider when evaluating any potential investment.

The purpose of this paper is to examine how the BTS Tactical Fixed Income Fund may "fit" in a broader portfolio—and, in particular, its historical impacts on overall investment performance.

In this paper, we first examine the BTS Tactical Fixed Income Fund in combination with a typical Bond[1] portfolio. Then, we take findings from that review and apply them in the context of a broader portfolio that includes equities.

Throughout these hypothetical examples, our emphasis is on risk-adjusted performance, especially as measured by Downside Deviation and the Sortino Ratio.

Downside Deviation is a measure of downside risk that focuses on returns that fall below zero. It is used in the calculation of a risk measure known as the Sortino Ratio. A higher Sortino ratio may indicate higher risk-adjusted returns.

Section 1:
Bond Portfolio Context

Adding BTS Tactical Fixed Income Fund to a Bond portfolio may improve risk-adjusted returns, based on Downside Deviation and Sortino Ratio.

Therefore, a potentially useful way to analyze the historical performance of the Fund is in conjunction with a Bond portfolio.

For example, the following table shows hypothetical examples of how the BTS Tactical Fixed Income Fund Class A (NAV) might have been combined with a Bond portfolio, as represented by the Bloomberg Barclays Aggregate Bond Index.

The table shows various weights of a two-part portfolio, ranging from 100% BTS TFI/0% Bonds to 0% BTS TFI/100% Bonds.

As shown, mixing the BTS Tactical Fixed Income Fund with a Bond portfolio led to higher returns with lower downside deviation. The highest Sortino Ratio is observed at 80% BTS TFI/20% Bonds.

This enhancement of Bond portfolio returns with lower downside deviation is a historical relationship we're especially proud of.

Hypothetical Return % - Downside Deviation %

Bonds[1] & BTS Tactical Fixed Income Fund Class A (NAV),
10 years from 4/1/08 through 3/31/18

Portfolio Allocation	Return (Annualized)	Downside Deviation	Sortino Ratio
100% Bonds	3.64%	1.78%	2.01
20% BTS TFI; 80% Bonds	4.54%	1.56%	2.85
40% BTS TFI; 60% Bonds	5.39%	1.44%	3.64
60% BTS TFI; 40% Bonds	6.19%	1.42%	4.23
80% BTS TFI; 20% Bonds	6.95%	1.51%	4.47
100% BTS TFI	7.67%	1.71%	4.34

[1]Bonds are represented by the Bloomberg Barclays Aggregate Bond Index. This does not represent the performance of an actual portfolio. It is not possible to invest directly in an index.

Section 2:
60/40 Portfolio Context

In the previous section, we looked at various proportions of the Bloomberg Barclays Aggregate Bond Index and the BTS Tactical Fixed Income Fund in the context of a bond-only portfolio. Comparing the results, the analysis showed the most attractive risk-adjusted returns, as measured by the Sortino Ratio, were obtained with a mix of 80% BTS Tactical Fixed Income and 20% Bonds.

Since many investors hold equities as well as bonds, a logical direction for further analysis is to review the impact on an equities plus bonds portfolio. The table and chart shown here show the historical impact on a traditional 60/40 portfolio when the bond portion of the portfolio is changed from 40% Bloomberg Barclays Aggregate Bond Index to 32% BTS Tactical Fixed Income and 8% Bloomberg Barclays Aggregate Bond Index, which would represent 80% BTS Tactical Fixed Income Fund and 20% Bonds within the 40% Bonds portion of the 60/40 portfolio.

When doing so, here's how the resulting percentages break down:

Reference Portfolio:

- 60% Stocks
- 40% Bonds

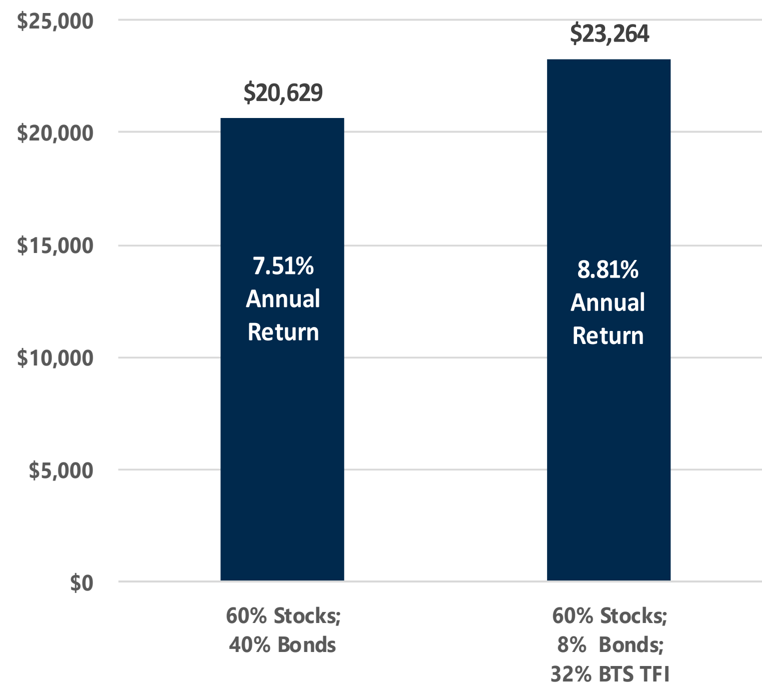
Adjusted Portfolio:

- 60% Stocks
- 8% Bonds
- 2% BTS Tactical Fixed Income

As reflected in the table below and the chart at right, the Adjusted Portfolio achieved not only a higher annualized return over the 10-year period but also a higher Sortino Ratio.

Hypothetical Growth of $10,000 - Annualized Return %

Stocks[1], Bonds[2] & BTS Tactical Fixed Income Fund Class A (NAV), 10 years from 4/1/08 through 3/31/18



Hypothetical Return % - Downside Deviation % - Sortino Ratio

Stocks[1], Bonds[2] & BTS Tactical Fixed Income Fund Class A (NAV), 10 years from 4/1/08 through 3/31/18

Portfolio Allocation	Return % (Annualized)	Downside Deviation %	Sortino Ratio
60% Stocks; 40% Bonds	7.51%	6.12%	1.19
60% Stocks; 8% Bonds; 32% BTS TFI	8.81%	6.26%	1.35

[1]Stocks are represented by the S&P 500 Index. [2]Bonds are represented by the Bloomberg Barclays Aggregate Bond Index. This does not represent the performance of an actual portfolio. It is not possible to invest directly in an index.

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective. Diversification does not ensure profit or protect against loss.

Section 3:
50/40/10 Portfolio Context

For many investors, "50/40/10" better describes a base portfolio than does "60/40." In the typical 50/40/10, a portion of the Stocks position has shifted to an International position represented by the MSCI EAFE index.

Here, as on the previous page, we examine the historical impact over the past 10 years when substituting the BTS Tactical Fixed Income Fund for 32% of the bond portion of the overall portfolio.

Here's how the allocations break down in this case:

Reference Portfolio:

- 50% Stocks
- 40% Bonds
- 10% International

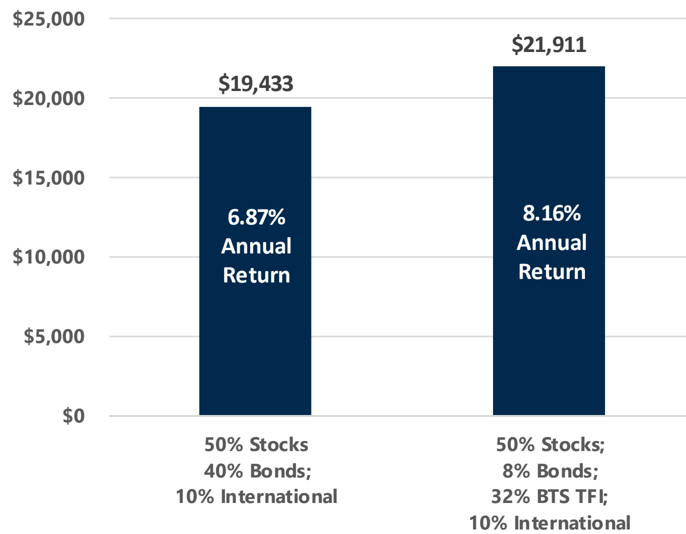
Adjusted Portfolio:

- 50% Stocks
- 8% Bonds
- 32% BTS Tactical Fixed Income
- 10% International

Here again, as reflected in the table below and the chart at right, the Adjusted Portfolio achieved both a higher annualized return and a higher Sortino Ratio over the 10-year period.

Hypothetical Growth of $10,000 - Annualized Return %

Stocks[1], Bonds[2], International[3] &
BTS Tactical Fixed Income Fund Class A (NAV),
10 years from 4/1/08 through 3/31/18



Hypothetical Return % - Downside Deviation % - Sortino Ratio

Stocks[1], Bonds[2], International[3] &
BTS Tactical Fixed Income Fund Class A (NAV),
10 years from 4/1/08 through 3/31/18

Portfolio Allocation	Return % (Annualized)	Downside Deviation %	Sortino Ratio
50% Stocks; 40% Bonds; 10% International	6.87%	6.33%	1.05
50% Stocks; 8% Bonds; 32% BTS TFI; 10 Core International	8.16%	6.47%	1.22

[1]Stocks are represented by the S&P 500 Index. [2]Bonds are represented by the Bloomberg Barclays Aggregate Bond Index. [3]International is represented by the MSCI EAFE. This does not represent the performance of an actual portfolio. It is not possible to invest directly in an index.

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective. Diversification does not ensure profit or protect against loss.

Section 4:

Why Downside Deviation and Sortino Ratio?

In our view, it's very important to align the metrics used in risk/return analysis with investors' own objectives. For example, in our experience, many conservative investors care about downside protection—that is, limiting volatility on the downside—much more than they care about volatility on the upside.

Downside Deviation and Sortino Ratio, therefore, provide a way to analyze performance in a way that's consistent with conservative investors' objectives. The Sharpe Ratio, which also measures risk-adjusted return of an investment strategy, uses Standard Deviation, or total volatility, both positive and negative. The problem with the Sharpe Ratio and Standard Deviation is that they both treat upside and downside volatility equally, even though one is more important than the other to many conservative investors.

Investors want more risk when the markets are going up and less risk when markets are going down. The problem with Sharpe Ratio is that it treats risk in up markets the same way, even though conservative investors view risk differently and have different tolerance for each. The Sortino Ratio allows the investor to isolate the measurement for just risk in down markets.

However, it's also true that Standard Deviation and Sharpe Ratio are commonly considered statistics—and it may be helpful to review them, as well, with regard to the Reference Portfolios and Adjusted Portfolios considered on the preceding pages.

The following tables present both the return and risk statistics for both the 60/40 and 50/40/10 examples. As shown in the tables, replacing 32% of the bond side of the portfolio with BTS Tactical Fixed Income led to an increase in the Sharpe Ratio in both cases.

Hypothetical Return % - Downside Deviation % - Sortino Ratio - Standard Deviation % - Sharpe Ratio

Stocks[1], Bonds[2] & BTS Tactical Fixed Income Fund Class A (NAV),
10 years from 4/1/08 through 3/31/18

Portfolio Allocation	Return % (Annualized)	Downside Deviation %	Sortino Ratio	Standard Deviation%	Sharpe Ratio
60% Stocks; 40% Bonds	7.51%	6.12%	1.19	9.14%	0.52
60% Stocks; 8% Bonds; 32% BTS TFI	8.81%	6.26%	1.35	10.02%	0.60

Hypothetical Return % - Downside Deviation % - Sortino Ratio - Standard Deviation % - Sharpe Ratio

Stocks[1], Bonds[2], International[3] & BTS Tactical Fixed Income Fund Class A (NAV),
10 years from 4/1/08 through 3/31/18

Portfolio Allocation	Return % (Annualized)	Downside Deviation %	Sortino Ratio	Standard Deviation%	Sharpe Ratio
50% Stocks; 40% Bonds; 10% International	6.87%	6.33%	1.05	9.34%	0.44
50% Stocks; 8% Bonds; 32% BTS TFI; 10 Core International	8.16%	6.47%	1.22	10.25%	0.53

[1]Stocks are represented by the S&P 500 Index. [2]Bonds are represented by the Bloomberg Barclays Aggregate Bond Index. [3]International is represented by MSCI EAFE. This does not represent the performance of an actual portfolio. It is not possible to invest directly in an index.

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective. Diversification does not ensure profit or protect against loss.

Section 5:
Investment Philosophy and Approach

In closing, following are several points that characterize the BTS investment strategy and its conservative orientation. We believe these ideas are important to consider along with numerical data such as the portfolio positioning examples on the preceding pages.

Our original model started in 1979 and tactically moved between High Yield and Cash and strived to deliver equity-like returns with bond-like risk over the long term. In 1996 BTS evolved its High Yield and Cash model and launched Bond Asset Allocation, a tactical risk-on/risk-off approach moving 100% of assets between three uncorrelated asset classes (High Yields, Treasuries, and Cash). This has served as our flagship strategy and is the investment approach of the Tactical Fixed Income Fund since its inception in 2000.

Our core investment philosophy is preservation of capital, while providing the opportunity for growth. We believe there is a time to be in the market, and a time to be out of the market. We apply a strong "sell" discipline, which is central to the preservation of capital philosophy.

Our trading is technically based, wherein buy and sell signals are generated from the investment models based on the indicators that are used in the investment models. The strategy deploys a trailing and expanding stop-loss from the most recent high, depending on the gains from the last allocation.

Our models are continuously monitored by the Investment Committee on a daily basis to monitor their effectiveness. We consider our approach to be a fluid model process. We review potential strengths and weaknesses on an ongoing basis while looking for ways to improve entry and exit points.

Conservative investment approaches may be important to risk averse investors seeking caution and prudence. Advisors may benefit by talking more to clients about what it means to take a conservative investment approach and about strategies that attempt to reduce risk. Understanding measures like Upside/Downside Capture Ratios may provide meaningful information about whether a fund is a conservative choice.

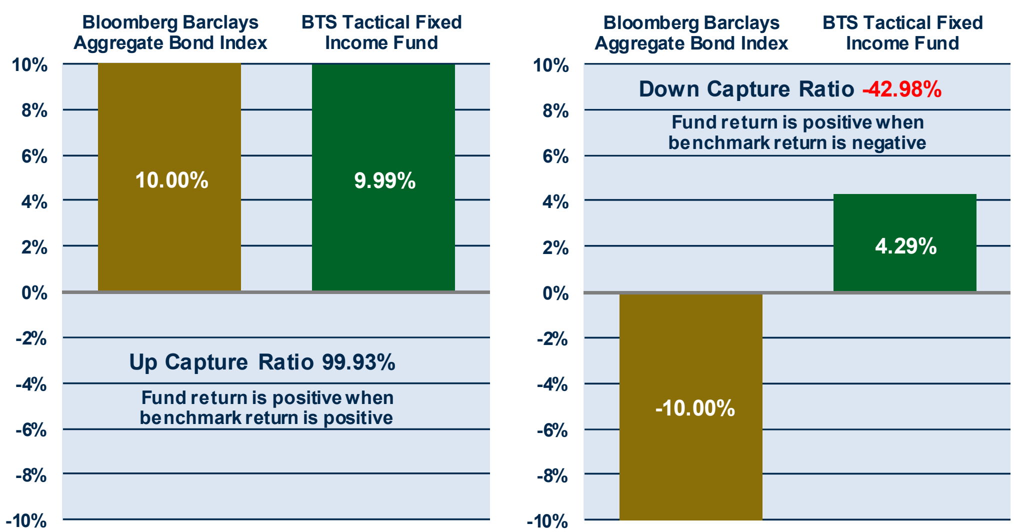
Upside/Downside Capture Ratios measure the degree to which a given fund under or outperformed a broad market benchmark based on monthly returns during periods of market strength and periods of market weakness.

If a fund goes up the same amount as the benchmark, the Upside Capture is 100%. A higher or lower ratio indicates the fund captured either more or less of the benchmark's positive returns. Downside Capture compares a fund's return to the negative returns of the benchmark. Downside Capture may be a particularly useful metric to conservative investors seeking capital preservation.

A fund may post negative returns during periods when the benchmark is up, or positive returns during periods when the benchmark is down. In these cases, the Upside and Downside Capture Ratios will be negative. In essence, these funds may zig when the market zags.

Hypothetical Up/Down Capture Ratio Converted to Total Return

Class A (NAV), Since Inception 1/1/00 through 3/31/18
vs. Bloomberg Barclays Aggregate Bond Index



Up/Down Capture Ratio Converted to Total Return: If the fund's total return is the same amount as the benchmark, the up capture ratio is 100%. If the fund's return is 8% when the benchmark is up 10%, the Up Capture Ratio is 80%. If the fund's return is 8% when the benchmark return is negative 10%, the Down Capture Ratio is negative: -80%.

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective.

Fund Performance as of 3/31/18

Average Annualized Total Returns	YTD[2]	1 Year	3 Years	5 Years	10 Years	Since Inception 1/1/00
Class A[1] (NAV)	-2.84%	-1.64%	3.20%	2.68%	7.67%	8.61%
Class A (max. 5% load)	-7.66%	-6.56%	1.46%	1.63%	7.12%	8.30%
Class C	-3.01%	-2.46%	2.41%	N/A	N/A	1.90%
Class I (Inception 5/28/15)	-2.78%	-1.45%	N/A	N/A	N/A	3.35%
Class R (Inception 5/5/15)	-2.90%	-1.97%	N/A	N/A	N/A	2.83%
BBgBarc Agg Bond Index	-1.46%	1.20%	1.20%	1.82%	3.63%	4.96%
Nontraditional Bond	0.09%	2.83%	2.18%	1.56%	2.58%	3.29%
S&P 500 BBgBarc Agg 50-50	-1.11%	7.48%	6.00%	7.53%	6.93%	5.53%

[1]The BTS Tactical Fixed Income Fund does not have performance as a mutual fund prior to May 31, 2013. The prior performance shown above is for the Fund's predecessor limited liability company (BTS Tactical Fixed Income Fund LLC, formerly known as BTS Asset Allocation/High Yield Fund LLC). The prior performance is net of management fees and other expenses. The predecessor limited liability company had been managed in the same style and by the same portfolio manager since the predecessor limited liability company's inception on January 1, 2000. The Fund's investment goals, policies, guidelines and restrictions are, in all material respects, equivalent to the predecessor limited liability company's investment goals, policies, guidelines and restrictions. The following information shows the predecessor limited liability company's annual returns and long-term performance reflecting the actual fees and expenses that were charged when the Fund was a limited liability company. From its inception on January 1, 2000 through the date of the prospectus, the predecessor limited liability company was not subject to certain investment restrictions, diversification requirements and other restrictions of the 1940 Act, which if they had been applicable, might have adversely affected its performance. In addition, the predecessor limited liability company was not subject to sales loads that would have adversely affected performance. The predecessor limited liability company's past performance is not necessarily an indication of how the BTS Tactical Fixed Income Fund will perform in the future.
[2]Performance for periods less than one year are not annualized.

Total Expense Ratios: Class A: 1.91%; Class C: 2.66%; Class I: 1.66%; Class R: 2.16%

Source: Morningstar as of 3/31/18. The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principle 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. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month-end, please call toll-free 1-877-287-9820.

Important Information

BBgBarc Agg Bond Index refers to the Bloomberg Barclays Aggregate Bond Index, which is comprised of government securities, mortgage-backed securities, asset-backed securities and corporate securities with maturities of one year or more to simulate the universe of bonds in the market. S&P 500 Index includes 500 leading companies in leading industries of the U.S. economy and is a proxy for the total stock market. MSCI EAFE Index represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Up Capture Ratio measures the portfolio's compound return when the benchmark was up divided by the benchmark's compound return when the benchmark was up. Down Capture Ratio measures the portfolio's compound return when the benchmark was down divided by the benchmark's compound return when the benchmark was down. Up/Down Capture Ratio Converted to Total Return: If the funds total return is the same amount as the benchmark, the upside capture ratio is 100%. If the funds return is 8% when the benchmark is up 10%, the Upside Capture Ratio is 80%. If the funds return is 8% when the benchmark return is negative 10%, the Down Capture ratio is negative –80%. Cumulative Return is the total gain, expressed as a percentage of the initial value. Standard Deviation measures the degree of variation of returns around the average return; the higher the volatility, the higher the standard deviation. Sharpe Ratio is a risk-adjusted performance measure (the incremental average return over the risk-free rate - represented as 3% - divided by risk), where risk is defined by standard deviation. A higher Sharpe ratio may indicate higher risk-adjusted returns. Sortino Ratio is a risk-adjusted performance measure (the incremental average return over the minimum acceptable return - represented as 0% - divided by risk), where risk is defined by downside deviation. A higher Sortino ratio may indicate higher risk-adjusted returns. Downside Deviation considers returns that fall below the minimum acceptable return. 0% is used for the minimum acceptable return. Stop-Loss is an order placed to sell a security when it reaches a certain price.

There is no assurance that the Fund will achieve its investment objective.

Mutual funds involve risk, including possible loss of principal.

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.

The use of Credit Default Swaps involves investment techniques and risks different from those associated with ordinary portfolio security transactions, such as potentially heightened counterparty, concentration and exposure risks. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. The Fund may invest in derivatives. Even a small investment in options may give rise to leverage risk, and can have a significant impact on the Fund's performance. Derivatives are subject to credit risk and liquidity risk. The values of foreign investments may be affected by changes in exchange control regulations, application of foreign tax laws changes in governmental administration or economic or monetary policy or changed circumstances in dealings between nations. In addition to the risks generally associated with investing in securities of foreign companies, countries with emerging markets also may have relatively unstable governments, social and legal systems that do not protect shareholders, economies based on only a few industries, and securities markets that trade a small number of issues. The Fund invests in fixed income securities, derivatives on fixed income securities or Underlying Funds that invest in fixed income securities.

The value of the Fund will fluctuate with changes in interest rates. Defaults by fixed income issuers in which the Fund invests could also harm performance. Lower-quality bonds known as "high yield" or "junk" bonds, present greater risk than bonds of higher quality, including an increased risk of default. An economic downturn or period of rising interest rates could adversely affect the market for these bonds and reduce the Fund's ability to sell its bonds. The lack of a liquid market for these bonds could decrease the Fund's share price. The use of leverage by the Fund or an Underlying Fund will indirectly cause the Fund to incur additional expenses and magnify the Fund's gains or losses. The Fund may engage in short selling activities which are significantly different from the investment activities commonly associated with conservative fixed income funds. Underlying Funds are subject to investment advisory and other expenses, which will be indirectly paid by the Fund. As a result, your cost of investing in the Fund will be higher than the cost of investing directly in the Underlying Funds.

Investors should carefully consider the investment objectives. risks, charges, and expenses of the BTS Tactical Fixed Income Fund. This and other information about the Fund is contained in the prospectus and should be read carefully before investing. The prospectus can be obtained on our web site, www.btsfunds.com, by calling toll free 1-877-287-9820 (1-877-BTS-9820), or by calling your financial representative. The BTS Tactical Fixed Income Fund is distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. BTS Asset Management, Inc. is not affiliated with Northern Lights Distributors, LLC.

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