Portfolio Managers' Quarterly

Q1 2025: Navigating Uncertain Monetary and Fiscal Policies

Dear Fellow Investor,

Thank you for the opportunity to manage your assets in 2024. As we head into 2025 in an ever-changing complex world, BTS believes that delivering sound investment principles rooted in capital preservation and risk management to client portfolios will become increasingly important if volatility increases this year.

Year in Review

Over the course of 2024, BTS Tactical Fixed Income Fund (Class I) returned 5.59% and BTS Managed Income Fund (Class I) returned 6.09%. In comparison, the Bloomberg U.S. Aggregate Bond Index returned 1.25%.

BTS Funds strategically managed bond market risk through tactical allocations that reduced exposure to interest rate sensitive bonds, especially reducing exposure to U.S. treasury debt which makes up a large component of the Bloomberg US Aggregate Bond Index. 2024 was a volatile year for rates as the market weighed a declining labor market in the backdrop of a Trump 2.0 presidency that reignited inflation fears amongst market participants and Federal Open Market Committee (FOMC) members. Despite the volatility, it seems that the U.S. economy has avoided a recession that typically occurs 12 months after yield curve inversion.[1]

BTS Tactical Fixed Income Returns as of 12/31/2024

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 1/1/2000
Class A (NAV)	5.29%	5.29%	-2.13%	-1.44%	0.36%	5.92%
Class A (Max. 3.75% Load)	1.34%	1.34%	-3.37%	-2.44%	-0.15%	5.70%
Class C (Inception 5/31/13)	4.54%	4.54%	-2.85%	-2.18%	-0.38%	-0.24%
Class I (Inception 5/28/15)	5.59%	5.59%	-1.84%	-1.18%	N/A	0.43%
Class R (Inception 5/5/15)	5.02%	5.02%	-2.31%	-1.66%	N/A	-0.04%
Bloomberg US Aggregate Bond Index	1.25%	1.25%	-2.41%	-0.33%	1.35%	3.94%

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. 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.
Total Expense Ratios: Class A: 1.93%; Class C: 2.68%; Class I: 1.68%; Class R: 2.18%

BTS Managed Income Returns as of 12/31/2024

	YTD	1 Year	3 Year	5 Year	Since Inception 12/31/2018
Class A (NAV)	5.82%	5.82%	-0.80%	0.90%	1.42%
Class A (Max. 3.75% Load)	1.81%	1.81%	-2.07%	-0.14%	0.55%
Class C	4.96%	4.96%	-1.59%	0.27%	0.89%
Class I	6.09%	6.09%	-0.58%	1.08%	1.58%
Class R	5.56%	5.56%	-1.10%	0.69%	1.24%
Bloomberg US Aggregate Bond Index	1.25%	1.25%	-2.41%	-0.33%	1.13%

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Total Annual Operating Expenses:

Class A: 2.68%; Class C: 3.43%; Class I: 2.43%; Class R: 2.93%

Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement:

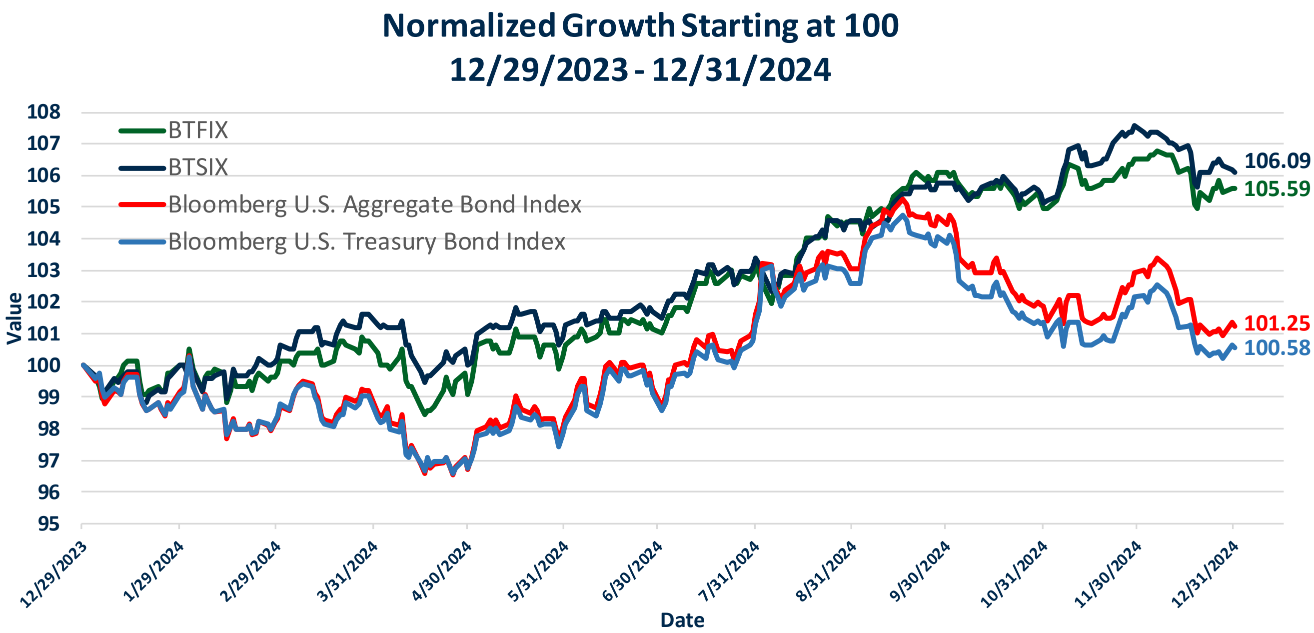
Class A: 2.07%; Class C: 2.82%; Class I: 1.82%; Class R: 2.32%

The Advisor has contractually agreed to waive fees and to make payments to limit fund expenses, until at least April 30th, 2025, so that the total annual operating expenses (exclusive of certain fees or expenses) do not exceed 1.75%, 2.50%, 1.50%, and 2.00% of average daily net assets attributable to Class A, Class C, Class I and Class R shares respectively.

BTS Portfolio Strategy and Risk Management

Last year, BTS communicated the risk that interest rates could remain higher for longer and that tactical positioning out of duration sensitive debt would be required under such a scenario. Our portfolio's performance in 2024 reflected the execution of that strategy. The portfolios demonstrated resilience, with maximum drawdowns remaining competitive relative to the Bloomberg U.S. Aggregate Bond Index and the 10-year Treasury note. This outcome reflects our strategic focus on capital preservation and effective risk management.

In August and December, we adeptly navigated volatility as investors reassessed the Federal Reserve's policy trajectory. Our exposure to government bonds was managed proactively, allowing us to capitalize on a strong high yield bond market while maintaining an agile defensive outlook in case the economy showed signs of weakness or inflation concerns reemerged.



Federal Reserve Rate Path and Trump Presidency

Throughout 2024, the Federal Reserve adjusted its monetary policy in response to cooling inflation and labor market weakness. In December, the Fed reduced the federal funds rate by 25 basis points to a target range of 4.25%–4.50%, marking the third consecutive cut aimed at supporting economic growth while keeping rates high enough to manage persistent inflation concerns.[2]

The minutes from the December meeting highlighted a cautious approach to future rate cuts, with officials expressing concerns about inflation remaining above the 2% target. Dot Plot Projections indicated only two additional cuts in 2025, reflecting a more measured policy stance and concerns about the inflationary impacts of a Trump presidency.[3] [4]

Some market participants, including Bank of America, have reduced their view to no rate cuts for 2025 and cite risks of a potential interest rate hike.[5] BTS views 1 or 2 rates cuts as likely scenarios this year. We maintain a moderate view for inflationary pressures accelerating in 2025, as we expect some policy initiatives under the new administration to progress on some sort of middle road. For instance, with tariffs, it is likely that we could see tariffs rolled out over time to reduce inflationary pressures in the medium term and allow for global supply chains to adjust progressively.

Positioning Outlooks in the Paradigm of Higher Rates

The December 2024 Federal Reserve meeting minutes indicated that officials perceive inflation and labor market risks as balanced. However, uncertainties surrounding the Trump administration's policies introduce potential volatility. Notably, the Fed acknowledged the absence of a reliable model to determine the neutral interest rate, complicating policy decisions and potentially increasing market unpredictability.[6]

With rates now expected to remain higher through 2025, we believe more money will remain or flow into money market funds. The long-term economics of risk-free returns will broadly affect yielding stocks as dividend yields have to compete against risk-free returns of around 4%. We believe any disruption to economic growth, or the labor market will see magnified drawdowns as investors weigh the opportunity costs associated with money market yields.

In the bond market, BTS is weighing how higher rates and the potential for an economic slowdown will affect higher yielding bonds at risk of defaulting. While the risk of the labor market declining is roughly in balance with the risk of inflation increasing, BTS believes risks in 2025 will be largely driven by the breakdown of this balance. Below are two scenarios we are tracking and positioning around in 2025.

Scenario 1: Labor Market Softens and Inflation Remains under Control

If the labor market softens and inflation remains under control, the Federal Reserve (the "Fed") would likely cut interest rates more than two times and continue to fuel the bull market in risk assets as it gauges where the neutral interest rate lies. In this case, BTS would look to participate in risk and add value in specific income producing sectors while managing any heightened volatility from short-term economic declines. Therefore, tactical positioning into cash may be warranted at key junctures to preserve capital if the market discounts less economic growth in the near term.

Scenario 2: Inflation Rises Slightly and the Labor Market Remains Strong

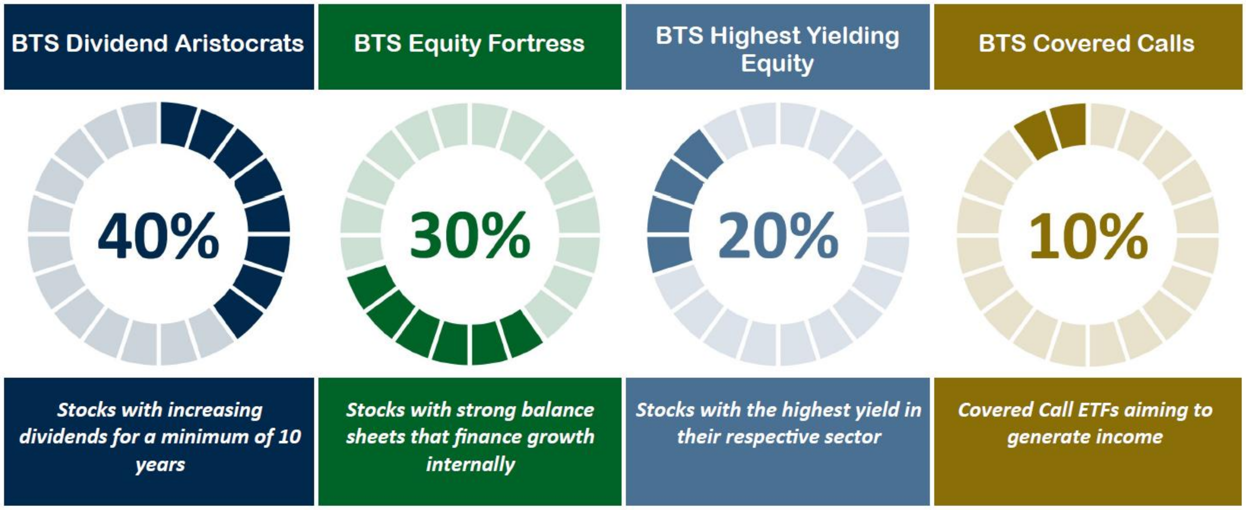
If inflation rises slightly and the labor market remains strong, BTS expects the Fed to continue its current path of roughly one to two interest rate cuts in 2025. This scenario seems to be the most likely from the market's perspective, however, the extent to which it unfolds is unclear.

The extent, if any, of how Trump's presidency affects inflation is unlikely to be clear until mid-2025, which may then result in significant volatility and the potential for the Fed to raise rates. Risk still may fare well if the economy remains strong, but higher interest rates may introduce similar volatility levels as in 2022 when growth stocks suffered the worst declines.

Equity Value Positioning

BTS favors value in 2025 as opposed to growth because of the risk of persistent inflation and higher for longer interest rates. In 2024, markets largely discounted aggressive cutting in 2025, which has just recently been put into question. In the opposite way, the market could discount higher rates into 2026. In our view, this would disproportionately affect growth stocks more susceptible to interest rate volatility.

Since the S&P 500 Index is growth heavy due to large weighting in mega cap technology stocks, such as the Magnificent 7, BTS believes equity income with an emphasis on value may outperform significantly as interest rates remain higher and growth is affected disproportionately.



BTS' recent launch of the BTS Enhanced Equity Income Fund seeks to offer diversification against the S&P 500's growth risk through a blend of innovative strategies. The Fund aims to find opportunity in quality equity income and growth opportunities by selecting equities with attractive relative valuations and strong underlying fundamentals across three strategies: BTS Dividend Aristocrats, BTS Equity Fortress, and BTS Highest Yielding Equity with a 10% allocation to BTS Covered Calls seeking to boost yield.

Conclusion

The effects of Trump's presidency on inflation and economic activity will not begin to be clear until after Q1 2025, which gives the market time to discount the Fed's policy trajectory and the direction of interest rates.

BTS expects that downside volatility will increase at some point in the short-term in 2025, making tactical allocations, capital preservation, and value investing crucial tenets for the year ahead. The catalysts we expect to cause negative returns are a weakening labor market and subsequent decline in consumer spending worsened by restrictive for longer monetary policy, as well as heightened inflation risk from fiscal policy.

Thank you for investing with BTS. As we progress through the first quarter of 2025, our investment strategy remains anchored in capital preservation and prudent risk management. We will continue to monitor economic indicators, policy developments, and market dynamics to navigate the complexities of the current environment in order to bring lower drawdown and higher returns to our clients.

Sincerely,

Vilis Pasts
Matthew Pasts, CMT
Isaac Braley
Henry Pasts

Co-Portfolio Managers

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Investors should carefully consider the investment objectives, risks, charges, and expenses of the BTS Tactical Fixed Income Fund, BTS Managed Income Fund, and BTS Enhanced Equity Income Fund before investing. 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 Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. BTS Asset Management, Inc. is not affiliated with Northern Lights Distributors, LLC.

CITATIONS

[1] Two years of yield curve inversion in the U.S. (DWS Research)(https://www.dws.com/en-us/insights/cio-view/charts-of-the-week/cotw-2024/chart-of-the-week-20240628/)

[2] December 2024 Fed meeting: Fed cuts rates by 25 basis points to bolster labor market, triggering market shifts (https://www.jpmorgan.com/insights/outlook/economic-outlook/fed-meeting-december-2024)

[3] Federal Reserve officials saw need for 'careful approach' to future rate cuts (Financial Times) (https://www.ft.com/content/d4d2ee21-f124-48bb-ae38-983ac159b470)

[4] Fed Meeting News Today: FOMC Cuts Again, Sees Just 2 More in 2025 (Barrons) (https://www.barrons.com/livecoverage/fed-meeting-rate-cuts-decision-powell-speech-news)

[5] Wall Street Economists Pare Back Fed Rate-Cut Views After Data (Bloomberg) (https://www.bloomberg.com/news/articles/2025-01-10/bank-of-america-says-fed-is-done-cutting-rates-sees-hike-risk?embedded-checkout=true)

[6] Minutes of the Federal Open Market Committee, December 17-18, 2024 (https://www.federalreserve.gov/newsevents/pressreleases/monetary20250108a.htm)

IMPORTANT RISK INFORMATION

Investing, including investing in mutual funds, involves risk, including possible loss of principal. There is no assurance that any strategy will achieve its investment objective. The value of fixed income securities will fluctuate with changes in interest rates. Defaults by fixed income issuers 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 Portfolio Manager’s ability to sell its bonds. The use of leverage within a strategy will indirectly cause additional expenses and could potentially magnify the gains or losses.

Diversification does not ensure a profit or guarantee against loss. The BTS Enhanced Equity Income Fund is newly formed and has a limited history of operations.

Equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value. The equity securities held by the Fund may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors affecting securities markets generally, the equity securities of a specific sector, or a specific company.

ETFs are subject to investment advisory fees 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 ETFs and may be higher than other mutual funds that invest directly in fixed income securities. Certain restrictions of the 1940 Act may limit the Fund’s assets that can be invested in any one ETF. This limit may prevent the Fund from allocating its investments in the manner the Adviser considers optimal or cause the Adviser to select an investment other than that which the Adviser considers optimal. The strategy of investing in ETFs could affect the timing, amount and character of distributions and may increase the amount of taxes paid.

Covered call ETFs receive premiums from the call options they sell but limit their opportunity to profit from an increase in the value of the underlying stock. If the underlying stock declines more that the option premium received by the ETF, there will be a loss on the overall position. Covered call ETFs are also subject to the risks of investing in equity securities.

The Bloomberg U.S. Aggregate Bond Index is index used by bond funds as a benchmark to measure their relative performance. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

The Bloomberg U.S. Treasury Bond Index is a broad measure of the performance of the U.S. Treasury bond market. It includes all publicly issued, fixed-rate, nominal U.S. Treasury securities with maturities of at least one year.

Volatility is typically characterized by market periods where asset prices deviate greatly around their mean prices.

Risk-adjusted returns measure an investment’s return while considering the extent of risk that was taken to achieve those returns.

Yield in reference to equities is typically the cumulative trailing 12-month dividend payouts expressed as a percentage of price. In reference to bonds, yield is the yearly interest paid to bondholders relative to the price paid for the bond.

Drawdown refers to peak to trough declines experienced by an investment over time.

BTS Dividend Aristocrats Equities are considered based on their ability to have increased year-over-year dividend payments for the past 10-15 years or longer.

BTS Equity Fortress Equities are considered based on the ability to finance internal revenue and asset growth without taking on excess debt as determined by the Adviser's proprietary model.

BTS Highest Yielding Equity Equities are considered based on having the highest dividend yield in their respective sector.

BTS Covered Calls Invests in exchange traded funds (ETFs) that pursue a covered call strategy. Covered call ETFs invest in a portfolio of equity securities and also write, or sell, call options on their equity exposure in order to generate income from the premiums received from writing call options.

The S&P 500 Index includes 500 leading companies in leading industries of the US economy and is a proxy for the total stock market.

Magnificent 7 is a term coined to represent seven leading companies including Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

**Index returns are for illustrative purposes only and should not be construed as BTS model performance or performance achieved by any BTS client. More specifically, any reference to index returns during isolated or defined periods in time is for reference only and is not meant to imply index returns are indicative of actual returns achieved in client portfolios. Investors cannot invest directly in an index, and index returns do not reflect management fees, custodial fees or brokerage commissions, which vary depending upon the custodian chosen.*

Source: ***Morningstar and Bloomberg (for index returns)***

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