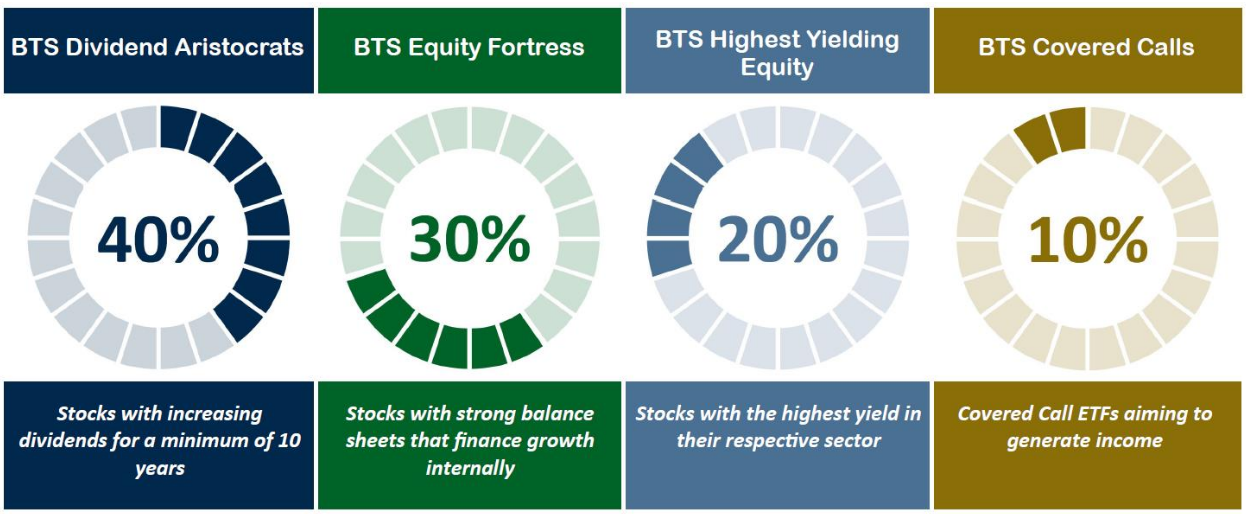
BTS ASSET MANAGEMENT

Portfolio Managers' Quarterly

Q4 2024: Continued Rotation to Value and Headwinds to Future Growth

Dear Fellow Investor,

BTS successfully launched the BTS Enhanced Equity Income Fund on June 28th, 2024. 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.



The Fund also seeks to diversify a client's portfolio when the market-capitalization weighted S&P 500 Index becomes overallocated to a small number of stocks. As of July, the S&P 500 has been concentrated in a small set of stocks termed the "Magnificent 7" that have seen considerable price appreciation compared to other S&P 500 constituents. The Magnificent 7 make up roughly 30% of the Index.[1]

BTS believes the current S&P 500 weightings pose diversification risks in a client's portfolio. If an index makes overweight decisions by market capitalization, and a small subset of its constituents take up a large weighting like the Magnificent 7, a large portion of the index's future returns are contingent on the same subset of stocks performing well again, which is no guarantee.

The BTS Enhanced Equity Income Fund aims to address these concerns by allocating to at least nine out of the eleven sectors and makes over or underweight decisions based on how sectors are performing against their historical averages, not merely by market size. BTS believes this approach offers diversification if the lagged effects of tighter than expected monetary policy weigh down the labor market and dampen future economic growth.

Over the last quarter, the BTS Enhanced Equity Income Fund returned 7.92% while the S&P 500 returned 5.89%, resulting in an outperformance of 2.03%. Although the Fund is newly operating, BTS believes that the current rotation into equity income and value investments will continue into 2025 and beyond, which BTS believes will benefit the Fund as the market discounts risk.

BTS Enhanced Equity Income Fund Returns as of 09/30/2024

	Since Inception (6/28/2024)
Class I (EEQIX)	7.92%
S&P 500 Index	5.89%

The BTS Enhanced Equity Income Fund's total annual operating expense ratio is 5.33%, 6.08%, 5.08%, and 5.58% for the Class A, C, I and R shares respectively. Total annual operating expenses after contractual fee waiver and/or expense reimbursement is 1.59%, 2.34%, 1.34%, and 1.84% for Class A, C, I, and R shares respectively until at least April 30th 2026. Please review the fund's prospectus for more information regarding the fund's fees and expenses. Note: The Fund is newly operational, and performance is not yet available for Class A, C, and R shares.

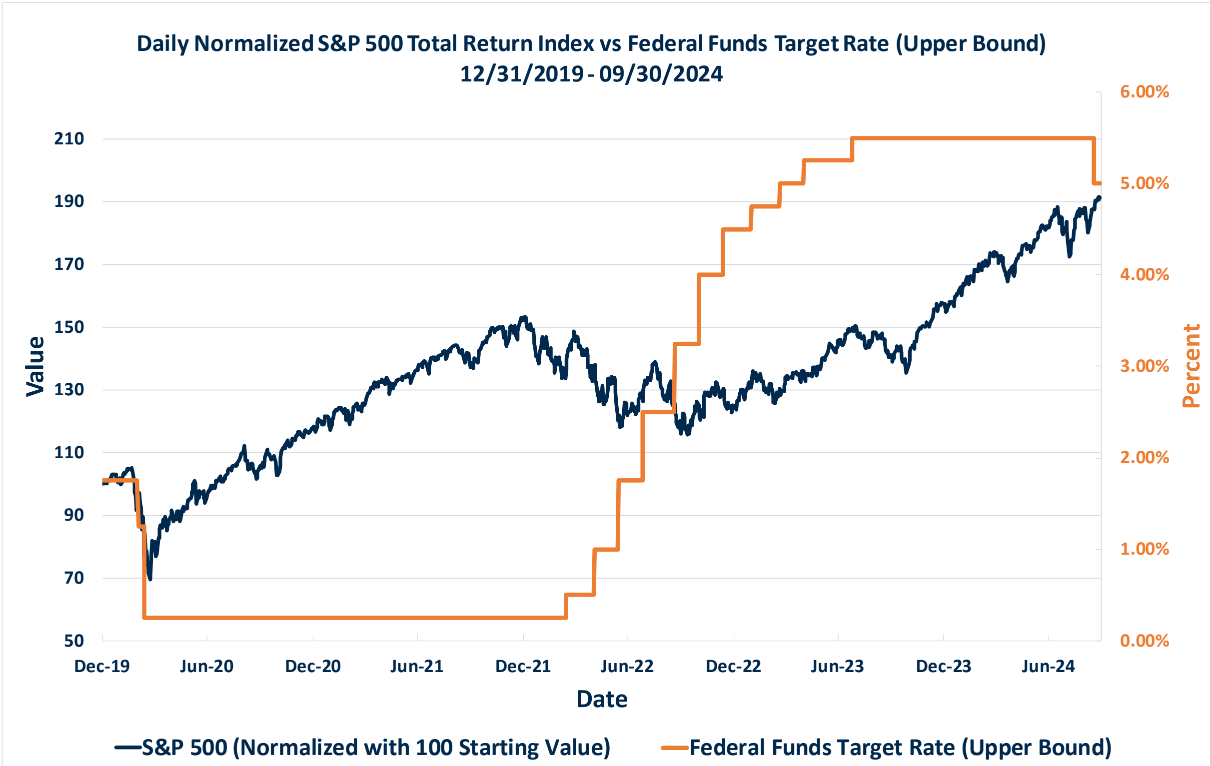
The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Past performance is 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. To obtain performance information current to the most recent month-end, please call toll-free 1-877-BTS-9820.

The Fallout of the Interest Rate Tightening Cycle

The Federal Reserve (the 'Fed') began tightening in March 2022 due to higher-than-expected inflation from post-COVID 19 spending. In September, the Fed finally began its easing cycle, cutting interest rates for the first time since 2020 with an oversized 50 basis points (bps) reduction. The Fed's rationale for a 50bps cut instead of a 25bps cut came from sustained progress towards their mandate of 2% inflation as well as balancing labor market unemployment risks.[2]

As of September, the Bank of America's Global Fund Manager Survey indicated that 79% of managers expect a soft landing in the next 12 months. However, BTS cautions that monetary policy often lags. We believe that the Fed may have held rates too high for too long.

Despite higher interest rates, the market has moved higher on sustained optimism of a soft-landing. However, due to lagged effects of money policy, BTS believes the negative effects of tight monetary policy on consumer spending and the labor market have not yet fully materialized.



Source: S&P Global, Bloomberg

*An investment cannot be made directly in an index**

From BTS' experience, market reactions to Fed policy are rarely efficient. One only has to look at the volatility created by the Fed's tightening policy in 2022 when the extent and level of interest rates were constantly questioned by market participants.[3]

BTS argues that the Fed has been more 'data-dependent' during the past rate hike cycle than previous cycles, considering changes to inflation and the state of the job market month by month. This data dependency, in BTS' view, poses a risk to the trajectory of the easing cycle if inflation and economic data fluctuates beyond expectations.

If data comes in weak, the Fed will have to consider cutting rates aggressively, which may not immediately cure a sinking economy and subsequent market declines. On the other hand, if data comes in strong, the Fed will have to ponder keeping rates higher into the end of 2025. In this case, BTS views that the market would struggle to move higher as markets wait and see if the economy can remain resilient. Therefore, the projected number of cuts this year and in 2025 may be disrupted if we see 1 to 3-month swings in current inflation or labor market trends.

Uncertainty Can Cause Market Risk

Can consumer spending remain supportive?

When Inflation was at its peak of 8.3% in August 2022, inflation-adjusted personal consumption expenditures increased at an annual rate of 1.4% during the third quarter of 2022 which included August.[4, 5] Robust consumer spending in the backdrop of high inflation has largely been a norm during the recent period of high inflation and high interest rates.[6] BTS cautions that as household debt burdens continue to rise, they may pose challenges for future consumer spending, especially if the job market weakens. As of Q2 2024, total household debt reached a new high of 17.80 trillion according to the New York Fed.[7]

Impact of AI on the Labor Market

A weakening labor market has already begun to pose risks for consumer spending and economic growth, as it was part of the Fed's rationale for cutting rates by 50bps instead of 25bps at the September FOMC meeting.

Other longer-term productivity trends of automation and artificial intelligence (AI) may pose additional risks to the labor market as the need for human labor in certain industries decreases. Technology jobs such as software engineering and transportation jobs such as rideshare services are just a few examples where AI usage is replacing humans at an increasing pace.[8, 9] The recent dockworkers strike also highlights the risk of automation and AI to the labor market. AI may affect different industries more sporadically as labor replacement risks become clearer.[10]

Geopolitics and the 2024 Presidential Election

Escalating tensions in the Middle East pose risks for U.S. stocks as global trade and economic activity becomes disrupted. For instance, 13.7% of total revenue for S&P 500 constituents comes from international sales according to S&P Global.[11] Rising oil prices and military conflicts may both dampen demand and global sentiment, which would weigh on domestic revenues while potentially reigniting inflation concerns through rising energy costs.

The November 2024 Presidential Election is also at the forefront of consumer sentiment. The balance of power between Republicans and Democrats may have wide ranging fiscal spending consequences that could affect economic outlooks, including disrupting the current downward trend in inflation.

Conclusion

BTS cautions that the aforementioned risks all have the ability to decrease consumer sentiment and increase volatility in both the bond and equity markets. BTS' tactical approach to fixed income and its value-based income approach to the equity market both aim to reduce volatility and increase risk-adjusted returns. Although there is plenty of cash in money market funds, as money market fund assets reached 6 trillion for the first time back in February 2024, BTS believes the current headwinds may push these assets into more defensive, value-based investments than investments reliant on accelerating growth as uncertainty in the interest rate easing cycle may create volatility.[12] We believe the BTS Enhanced Equity Income Fund is well positioned to participate in this trend.

Moreover, as long as the economy achieves a relative soft-landing or GDP continues at a robust 2-3% growth rate, we may also see cash move to high yield bonds which will have increasingly attractive yields as the Fed cuts rates. However, from BTS' experience, at junctures where there are significant growth headwinds to the economy, clients often opt for tactical approaches to fixed income rooted in capital preservation, such as those offered by the BTS Tactical Fixed Income and BTS Managed Income Funds. These Funds offer the ability to move away from riskier, higher-yielding assets to safer income-producing asset classes if markets rapidly deteriorate.

Thank you for investing with BTS. We are committed to a risk management approach that maximizes growth potential in both the stock and the bond markets 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

CITATIONS

[1] Is the U.S. Stock Market too ‘Concentrated’? Here’s What to Know (CNBC) (https://www.cnbc.com/2024/07/01/how-magnificent-7-affects-sp-500-stock-market-concentration.html)

[2] Fed Rate Cuts September 2024 (https://www.cnbc.com/2024/09/18/fed-cuts-rates-september-2024-.html)

[3] Interest Rate Increases, Volatile Markets Signal Rising Financial Stability Risk (October 2022) (https://www.imf.org/en/Blogs/Articles/2022/10/11/interest-rate-increases-volatile-markets-signal-rising-financial-stability-risks)

[4] Consumer Price Index – August 2022 (https://www.bls.gov/news.release/archives/cpi_09132022.pdf)

[5] Here's How Inflation is Affecting Consumer Spending in the US (November 2022) (https://www.weforum.org/agenda/2022/11/inflation-consumer-spending-us-economic/)

[6] U.S. Consumers Keep Spending Even in the Face of Persistent Inflation and High Interest Rates (https://www.pbs.org/newshour/economy/u-s-consumers-keep-spending-even-in-the-face-of-persistent-inflation-and-high-interest-rates)

[7] Household Debt and Credit Report (Q2 2024) (https://www.newyorkfed.org/microeconomics/hhdc)

[8] The Economist: AI and Globalisation are Shaking Up Software Developers' World (https://www.economist.com/business/2024/09/29/ai-and-globalisation-are-shaking-up-software-developers-world)

[9] Union Plan Pushback on Proposed Driverless Taxi Expansion in L.A. (https://www.nbcnews.com/tech/innovation/la-waymo-driverless-cars-union-teamsters-rcna136836)

[10] Dockworkers May Have the Negotiating Advantage in Their Strike Against US Ports (https://apnews.com/article/dockworkers-strike-ports-ila-longshoremen-91703e4798dbc9ee82185e983f31a3f6)

[11] International Revenues Shrink for Group of S&P 500 Companies in Q1 2024 (https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/international-revenues-shrink-for-group-of-s-p-500-companies-in-q1-2024-82448373)

[12] Money-Market Fund Assets Reach $6 Trillion for First Time (https://www.bloomberg.com/news/articles/2024-02-01/money-market-fund-assets-reach-6-trillion-for-first-time?embedded-checkout=true)

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.

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.

Federal Funds Target Rate (Upper Bound) is the highest interest rate at which depository institutions trade federal funds (balances held at Federal Reserve Banks) with each other overnight. (1) The rate that the borrowing institution pays to the lending institution is determined between the two banks (2) The effective federal funds rate is essentially determined by the market but is influenced by the Federal Reserve through open market operations to reach the federal funds rate target, no higher than the upper bound rate set by the Federal Reserve.

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

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.

20241008-3914706