Active Insights Podcast – North Square Trilogy Alternative Return Fund: Blending Multiple Strategies to Reduce Risk in Changing Market Conditions

Diane Merritt:

Welcome to North Square Investments Active Insights podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments will discuss CS McKee's strategies for tactical asset allocation. Brad Thompson and Clayton Wilkin, both Portfolio Managers with CS McKee, will provide us with their insights and outlook for the market. CS McKee is a partner firm in the North Square platform. Mark, Brad, Clayton, we look forward to your discussion.

Mark Goodwin:

Thanks Diane. As you mentioned at North Square, we seek out best in class active managers for our platform and our partners at CS McKee have strong and we believe timely capabilities in providing risk managed alternative strategies. Brad, you, and your team manage three distinct strategies for us for the common thread of managing risk and volatility, the North Square Tactical Growth Fund, the North Square Tactical Defensive Fund and North Square Trilogy Alternative Return Fund. Can you tell us what is the general portfolio strategy and investment objective for each of these Funds?

Brad Thompson:

Yes, I sure can Mark and thanks again. The Trilogy Alternative Return Fund is a market-neutral total return strategy that strives to maintain low correlation to the overall U.S. equity market. The Fund utilizes three underlying strategies that attempt to generate an absolute return while also managing risk exposure in varying market conditions. The Tactical Funds you mentioned offer two different approaches to tactical asset allocation. The Tactical Growth Fund seeks to maintain a portfolio that adequately compensates investors for risks they are taking while the Tactical Defensive Fund uses tactical shifts to increase or decrease the risk exposure within the portfolio.

Mark Goodwin:

Today, I would like to focus on the Trilogy Alternative Return Fund, ticker STTIX. This Fund focuses on total return while reducing risk in changing markets. Brad, Trilogy Alternative blends three different strategies. What is the purpose of each of the three sub-components and how do they blend together to achieve the investment objective?

Brad Thompson:

Mark, as you mentioned, the Trilogy Fund is broken down into three different components that work simultaneously together during really any market environment with the goal of two of the three strategies adding value over a rolling one-year timeframe. The first of these is a collared equity strategy that combines dividend paying, blue chip stocks and we throw in a few equity dividend ETFs, and then we employ an option collar around that entire notional value of those equities. We like to collect the dividend premium on the equity position that we have, while also being able to participate to some degree in a market rally while also having downside protection from the use of that option collar. Now we expect this strategy to provide gains during up and flat markets and probably be a drag during a down market. But during a market rally, our equity positions can participate in the gains. During that flat or range bound type of market, we are still collecting dividend income which provides additional return during that flat market. For the next component, I'd like to turn it over to Clayton Wilkin to explain the option income strategy, since that is his area of expertise. Clayton, you want to take that one?

Clayton Wilkin:

Yes, thanks Brad. As you mentioned, the second is an option income strategy that blends fixed income ETFs with a combination of short call spreads and short put spreads to collect option premium. We like that this bucket provides some “flight to safety” with its fixed income exposure while being able to collect dividend income from the ETFs we own. The short call spreads and short put spreads provide additional option premium, usually on a one-week-rolling basis. This option strategy is best suited for range bound and down markets. During a range bound market, we are collecting dividend income from our fixed income ETFs and the combination of short call spreads and short put spreads is maximized when the market does not really move over a one-month period. We believe the strategy also provides benefits during the market down move as historically fixed income provides a “flight to safety” while an increase in volatility helps us collect more option premium than we typically see during low volatile normal market conditions.

Brad Thompson:

Thanks Clayton. And moving on to the third component is a market movement strategy that really picks up where the other two components leave off. And it is strictly an option-based strategy that is designed to benefit from substantial price changes, up or down, in the market. We like to have a combination of short-term downside protection while also having the ability to participate in long term market rally. We use a mix of long calls, short calls and long put spreads to accomplish this. And we can be opportunistic at times in our trading depending on the current market environment. But during market up moves, we have those long calls in place that are trying to take advantage of long-term market moves as historically markets do tend to move higher. However, during down markets we have downside protection in place with our long put spreads and we're also able to collect more premium on the short calls that we're selling because they trade at higher volatility and that higher volatility tends to increase the option premium.

Mark Goodwin:

Clayton, can you talk a bit about how you determine the allocation among these three sub-strategies and how often you're evaluating this?

Clayton Wilkin:

So we try to target an allocation of about 45% in each of the collared equity and option income strategies, with the remaining roughly 10% going to the market movement strategy. We examine the portfolio daily to ensure we do not deviate too far from these allocation limits we have in place. Trilogy is very process driven and we like to stick to that process so investors know that this strategy will not drastically change over time, and they can expect a consistent management of the Fund.

Mark Goodwin:

Are there any opportunistic trades that you can make in the portfolio?

Clayton Wilkin:

Great question, there are. As Brad mentioned earlier, we have this ability in the market movement strategy. For example, when volatility spikes like it did in February and March of 2020, our option trading also picked up. We like when volatility rises, because this gives us an opportunity to trade options at a multiple of their normal levels. We were able to collect almost 10 times as much premium on options during the COVID crash and we took advantage of that higher volatility. This increase in trading ultimately helped the Fund only lose 74 basis points compared to the almost 34% drawdown in the S&P 500 Index from February 19th, 2020 to March 23rd, 2020. The opposite can be said of a market environment with low volatility. Options are usually much cheaper, and we tend to trade less as selling options in this environment can create quite the drag on performance. Instead, we are able to buy cheap downside protection in the form of long put spreads.

Mark Goodwin:

Thanks Clayton, and this strategy seems particularly timely in our current market environment. Is it designed to perform over a complete market cycle?

Clayton Wilkin:

So given this strategy is a total return strategy, the goal that we are trying to accomplish is that regardless of the market environment, two of the three underlying strategies are providing enough gains to outweigh the potential loss from the third strategy. So instead of a full market cycle, we usually like to look at how the portfolio is doing over a one-year-rolling timeframe with a goal of about 3-5% over that same period.

Mark Goodwin:

Thank you. Brad, much of the economy seems to be recovering. Although, strains in supply chains are proving to be challenging. Equity markets have been a bit more volatile; inflation is causing some concerns about being less than transitory, and the Fed has hinted to being somewhat less accommodative than they've been in the past. Where do you see the economic environment today and what is your expectation for markets over the remainder of 2021 and spilling into 2022?

Brad Thompson:

Well, Mark, obviously there is great concern about rising interest rates with the Fed inevitably tapering back and being less accommodative. But there's also the concern about that transitory rising inflation environment being more prolonged than originally expected. These, in my opinion, are two of the biggest concerns investors have and rightly so. We really haven't seen a market environment like this given the impact COVID-19 had on the economy.

Mark Goodwin:

How do you see this view comparing with the way you're positioned in the Trilogy Alternative Fund today?

Brad Thompson:

Well, Mark, we believe the Trilogy Fund is really a great alternative to fixed income products when interest rates and inflation are rising. Since Trilogy's inception in 2012, we've seen three periods of really sustained rising interest rate environments. The first was from July of 2012 to December of 2013, the second, July 2016 to November 2018 and more recently, August of 2020 to March of this year. And over all three of those time periods, the Trilogy Fund outperformed the Bloomberg U.S. Aggregate Total Return Index. As for rising inflation, there have been two periods since the Fund's inception going back to April of 2015 through July of 2018 and more recently from May of last year to September of this year. And in both periods of rising inflation, Trilogy also outperformed the Bloomberg U.S. Aggregate Total Return Index. Now obviously historical performance doesn't guarantee future performance, but Trilogy has a successful track record in both rising rate and inflationary market environments.

Mark Goodwin:

That's particularly noteworthy given today we just saw the yield curve invert with a 20-year treasury yield surpassing the 30-year. So clearly, we're in an environment of inflationary expectations. Clayton back to you, how do you see the risk level for U.S. and global equities in the current market?

Clayton Wilkin:

As previously mentioned, the fear of the Fed beginning to taper, inflationary pressures from the supply chain shortage and then what some feel are already stretched equity valuations we feel that there are additional risks in the equity market right now. That's why we like the built-in protections that are in place within the Trilogy strategy and the typical low correlation the portfolio offers during periods of stress in the equity markets. It's hard to say when the risk of equities will ultimately play out as no one can definitively say.

Mark Goodwin:

Brad, how do you see the Trilogy Alternative strategy being best positioned within the diversified portfolio of an individual investor and what benefits would you expect it to provide?

Brad Thompson:

Well, Mark, we usually see the Trilogy Fund within an advisor’s portfolio as a sleeve of its own in a multi-alternative allocation. But more recently we've seen it within a fixed income sleeve as it provides a solid diversification benefit as an alternative to that fixed income. And if you're nervous about rising rates, it can make for a nice addition within a fixed income sleeve.

Mark Goodwin:

Brad, Clayton, thank you for joining me today. This has been a great discussion as always.

Brad Thompson:

Thank you, Mark. Appreciate it.

Clayton Wilkin:

Thanks Mark.

Diane Merritt:

Thank you for tuning in to our North Square Active Insights podcast. For more information on North Square Investments, our partners, and investment solutions, please visit our website at www.northsquareinvest.com.

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Principal Risks of Investing:

Tactical Growth Fund – Risk is inherent in all investing including an investment in the Fund. An investment in the Fund involves risk, including, the following principal risks, among others: Management and Strategy Risk, ETF and Mutual Funds Risk, Derivatives Risk, Market Risk, Equity Risk, Fixed Income Securities Risk and Growth-Oriented Investment Strategies Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth below. Before you decide whether to invest in the Fund, carefully consider these risks associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. More information about these risks and other risks can be found in the Fund’s prospectus.

Tactical Defensive Fund – Risk is inherent in all investing including an investment in the Fund. An investment in the Fund involves risk, including, the following principal risks, among others: Management and Strategy Risk, ETF and Mutual Funds Risk, Derivatives Risk, Fixed Income Securities Risk, Equity Risk, Market Risk, Currency Risk and Foreign Investment Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth below. Before you decide whether to invest in the Fund, carefully consider these risks associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. More information about these risks and other risks can be found in the Fund's prospectus.

Trilogy Alternative Return Fund – Risk is inherent in all investing including an investment in the Fund. An investment in the Fund involves risk, including, the following principal risks, among others: Management and Strategy Risk, ETF and Mutual Funds Risk, Derivatives Risk, Fixed Income Securities Risk, Equity Risk, Market Risk, Currency Risk, Foreign Investment Risk and High Yield ("Junk") Bond Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth below. Before you decide whether to invest in the Fund, carefully consider these risks associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. More information about these risks and other risks can be found in the Funds' prospectus.

Diversification does not assure a profit or protect against loss in a declining market.

Definitions of key terms used in this podcast:

Correlation describes the relationship between two variables. Variables are correlated if the change in one is followed by a change in the other. Correlation shows if the relationship is positive or negative and how strong the relationship is. Positive correlation describes the relationship between two variables which change together, while an inverse correlation describes the relationship between two variables which change in opposing directions. Inverse correlation is sometimes known as a negative correlation, which describes the same type of relationship between variables.

An **Option Collar**, also known as a hedge wrapper or risk-reversal, is an options strategy implemented to protect against large losses, but it also limits large gains.

The **short call spread** (or "bear call spread") is a type of options strategy used when an investor expects a decline in the price of the underlying asset.

The **short put spread** is another type of options strategy where an investor or trader expects a moderate-to-large decline in the price of a security or asset and wants to reduce the cost of holding the option trade.

A **basis point is** one hundredth of one percent, used chiefly in expressing differences of interest rates. (100 basis points = 1.0%.)

The **S&P 500 Index**, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S., regarded as one of the best gauges of large-cap U.S. equity performance.

The **Bloomberg US Aggregate Bond Index** is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The index is frequently used as a stand-in for measuring the performance of the US bond market.

As of 9/30/2021	1 Year	5 Year	Since Inception*
North Square Trilogy Alternative Return Fund I NAV	7.59%	2.73%	2.81%
Standard & Poor's 500 Index	29.98%	16.87%	14.66%
Bloomberg US Aggregate Bond Index	-0.90%	2.94%	3.01%

*Inception Class I shares 4/1/2012. Effective June 2021, the name of the Stadion Trilogy Alternative Return Fund was changed to the North Square Trilogy Alternative Return Fund.

Current performance may be lower or higher than the performance data quoted. The performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the Trilogy Alternative Return Fund's standardized performance, please click here.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 855-551-5521. Please read the prospectus carefully before you invest.

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