

Categorizing Tactical High Yield in Your Portfolio

When considering tactical high yield strategies in general, like the **Counterpoint Tactical Income Fund (CPITX)**, investors often ask **where it fits within a fixed income portfolio**, or what category it belongs to. Because CPITX is designed as a low-correlation diversifier of fixed income portfolios, it defies neat categorization.

However, this challenge is balanced by the unique contributions CPITX (and other **systematic diversifier strategies**) can make to a variety of bond fund categories. Let's take a look at the case for assigning CPITX to a few different buckets as defined by Morningstar categories:

- Nontraditional Bond
- Intermediate Core Bond
- High Yield Bond
- Multisector Bond
- Short-Term Bond
- Core bonds (represented by the Bloomberg US Aggregate Index)

As we'll see, a tactical high yield strategy's unique structure enables it to contribute alongside a number of popular fixed income strategies.

Is CPITX Just a High Yield Fund?

High yield trend following strategies like CPITX invest in high yield when "risk-on," so investors tend to think of these strategies as high yield strategies. But the numbers tell a slightly different story.

On the surface, CPITX has not historically shown a strong overall resemblance to any of its potential categories - including high yield. Its strongest relationships are with Nontraditional, Multisector, and High Yield bond categories - but the correlations are still fairly weak, topping out at 0.39 with the Nontraditional Bond category. (As a reminder, correlation is a scale from -1 to +1, where -1 means the strategies move exactly opposite, 0 means they have no relationship, and +1 means they are in lock step.)

Correlations - CPITX and Morningstar Bond Categories

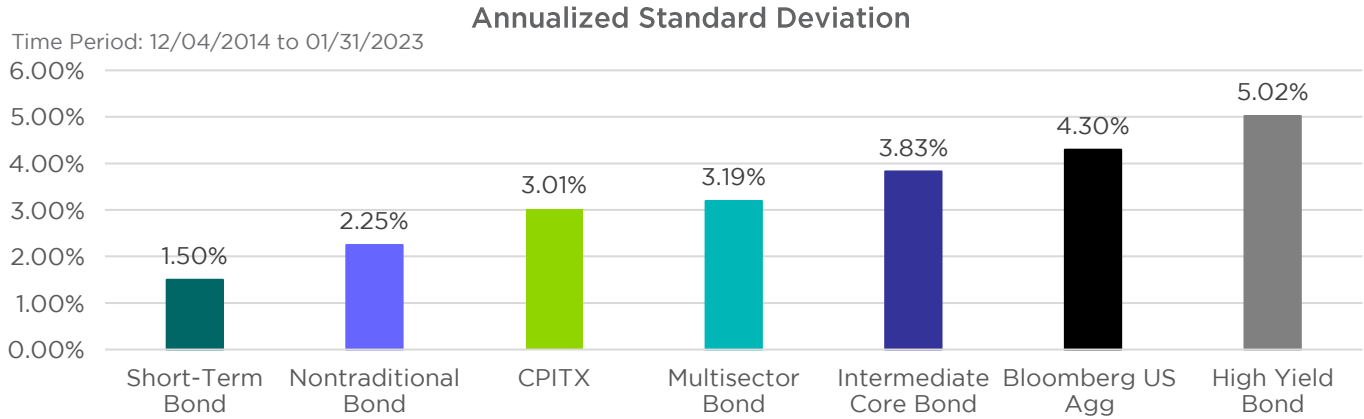
INVESTMENT	1	2	3	4	5	6	7
1 Counterpoint Tactical Income Fund (CPITX)	1.00						
2 Nontraditional Bond	0.41	1.00					
3 Intermediate Core Bond	0.23	0.32	1.00				
4 High Yield Bond	0.41	0.94	0.27	1.00			
5 Multisector Bond	0.41	0.91	0.63	0.88	1.00		
6 Short-Term Bond	0.25	0.60	0.84	0.55	0.81	1.00	
7 Bloomberg US Agg	0.21	0.21	0.98	0.17	0.53	0.78	1.00

Source: Morningstar. For illustrative purposes only. "High Yield Bond", "Nontraditional Bond", "Intermediate Core Bond", "Multisector Bond", and "Short-Term Bond" are completely composed of the Morningstar US High Yield, US Intermediate Core, US Multisector, and US Short-Term Bond categories respectively. The "Bloomberg US Agg" is represented by the Bloomberg Barclays US Aggregate Bond Index.

The performance data displayed here represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month-end, please call toll-free 844-273-8637.

Not Exactly Just a High Yield Bond Fund

Another way to analyze an investment's fit within a category is to match its risk/volatility/standard deviation against the category. One reason investors use categories is to set expectations, especially expectations around risk.



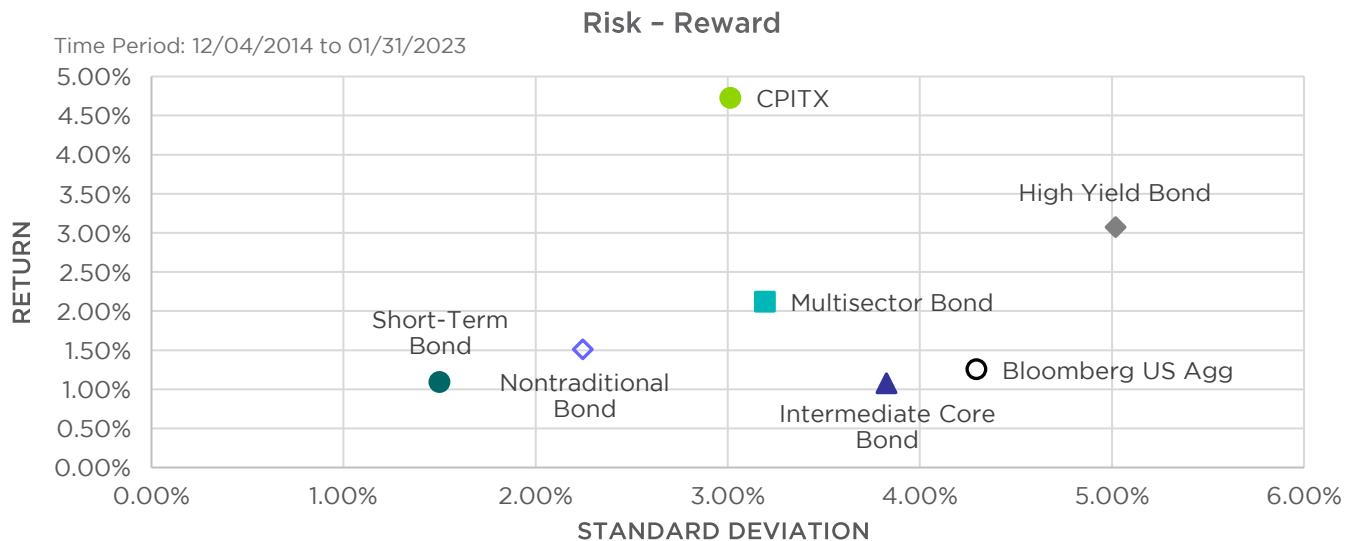
Source: Morningstar. For illustrative purposes only.

From the risk point of view, CPITX is actually least like the high yield bond category, and instead looks more like the nontraditional, multisector, and core-plus categories.

Where Does CPITX Contribute to Portfolios?

Typically, a fixed income portfolio will seek to behave similarly to its category – Nontraditional Bond portfolios should behave like the Nontraditional Bond category, etc. This objective balances against another important goal – an optimal risk-return profile.

The chart below shows how CPITX has historically contributed to a portfolio's risk reward profile as compared to other Morningstar fixed income categories. The chart measures risk on the x-axis (riskier is further to the right) and return on the y-axis (more return as you go up). Strategies improve as they go up and to the left.



Source: Morningstar. For illustrative purposes only.

Whatever the category, CPITX historically would have contributed on both a risk and return basis – adding return while reducing portfolio volatility.

Conclusion

Counterpoint Tactical Income’s categorization depends on which criteria are most important to the decision.

- **Correlation analysis:** CPITX’s strongest relationship historically has been with High Yield.
- **Volatility:** When assessing historical risk, CPITX has the most in common with Multisector, and Nontraditional Bond categories.
- **Portfolio Contribution:** There are meaningful historical benefits to including Counterpoint Tactical Income in a hypothetical model covering any of the four categories.

In our opinion, CPITX is most useful as a diversifier of core bond holdings, and we believe a reasonable allocation **could replace up to 50% of an investor’s core bond sleeve**. However, in conversations with investors and advisors, there tends to be a natural gravitation toward thinking of the strategy as a nontraditional or high yield bond strategy replacement. This owes in large part to investors’ understanding that the strategy invests in high yield bond markets when risk-on and displays low correlation with other traditional bond categories.

As of January 31, 2023	As of December 31, 2022							
	Return Since Fund Inception (Annualized)	Return YTD	Return Since Fund Inception (Annualized)	Max Drawdown	Std Dev	1 Year Return	3 Year Return	5 Year Return
Counterpoint Tactical Income Fund (CPITX) ¹	4.73%	2.65%	4.44%	-4.59%	3.01%	-2.40%	2.77%	2.99%
Morningstar US Fund Nontraditional Bond ¹	1.51%	2.17%	1.25%	-10.83%	2.24%	-6.31%	-0.69%	0.63%
Morningstar US Fund Intermediate Core Bond ¹	1.08%	3.12%	0.70%	-18.11%	3.78%	-13.35%	-2.83%	-0.22%
Morningstar US Fund High Yield Bond ¹	3.07%	3.58%	2.66%	-20.03%	5.01%	-10.31%	-0.49%	1.50%
Morningstar US Fund Multisector Bond ¹	2.12%	3.08%	1.76%	-14.22%	3.17%	-9.95%	-1.18%	0.80%
Morningstar US Fund Short-Term Bond ¹	1.09%	1.51%	0.91%	-7.75%	1.48%	-5.22%	-0.55%	0.74%
Bloomberg US Aggregate Bond Index ¹	1.25%	3.08%	0.89%	-18.41%	4.25%	-13.01%	-2.71%	0.02%

¹Counterpoint Tactical Income Fund inception date is December 4, 2014.

The performance data displayed here represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate so that investor’s shares, when redeemed, may be worth more or less than their original cost. The Fund’s maximum sales charge for Class A shares is 5.75%. The Fund’s adviser has contractually agreed to waive its fees and reimburse expenses of the Fund, at least until January 31, 2023 to ensure that Total Annual Fund Operating Expenses After Fee Waiver and Reimbursement but does not include: (i) any front-end or contingent deferred loads; (ii) brokerage fees and commissions, (iii) acquired fund fees and expenses; (iii) borrowing costs (such as interest and dividend expense on securities sold short); (iv) taxes; and (v) extraordinary expenses, such as litigation expenses (which may include indemnification of Fund officers and Trustees, contractual indemnification of Fund service providers (other than the Adviser)) do not exceed 2.00%, 2.75% and 1.75% of average daily net assets attributable to Class A, Class C, and Class I shares, respectively. For performance information current to the most recent month-end, please call toll-free 844-273-8637.

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses. Important information about the fund is available in their prospectuses, which can be obtained at counterpointfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing.

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Mutual Funds involve risk including the possible loss of principal. The use of leverage by the Fund or an Underlying Fund, such as borrowing money to purchase securities or the use of derivatives, will indirectly cause the Fund to incur additional expenses and magnify the Fund's gains or losses. Derivative instruments involve risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. 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. Past performance is no guarantee of future results. There is no assurance the Fund will meet their stated objectives.

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The Adviser's reliance on its strategy and judgments about the attractiveness, value and potential appreciation of particular securities and the tactical allocation among investments may prove to be incorrect and may not produce the desired results. No level of diversification can ensure profits or guarantee against loss.

Index Definitions

High Yield, Intermediate Core, Multisector and Short-Term Bonds are represented by the Morningstar US High Yield, US Intermediate Core, US Multisector and US Short-Term Bond categories respectively. The Bloomberg US Agg is represented by the Bloomberg Barclays US Treasury 7-10 Year Index, which measures total return of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity.

Definitions

Return is the percentage change in the value of an investment, and/or cash flows which the investor receives from that investment, such as interest payments, coupons, cash dividends, stock dividends or the payoff from a derivative or structured product, over a specified time period.

Maximum Drawdown (Max Drawdown) is the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained and can be used as an indicator of downside risk over a specified time period.

Standard Deviation (Std Dev) measures the dispersion of returns relative to its mean to determine the volatility of an investment and is calculated as the square root of the variance by determining the deviation of daily returns relative to the mean.

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