

The Fixed Income Dilemma: Yield or Return?

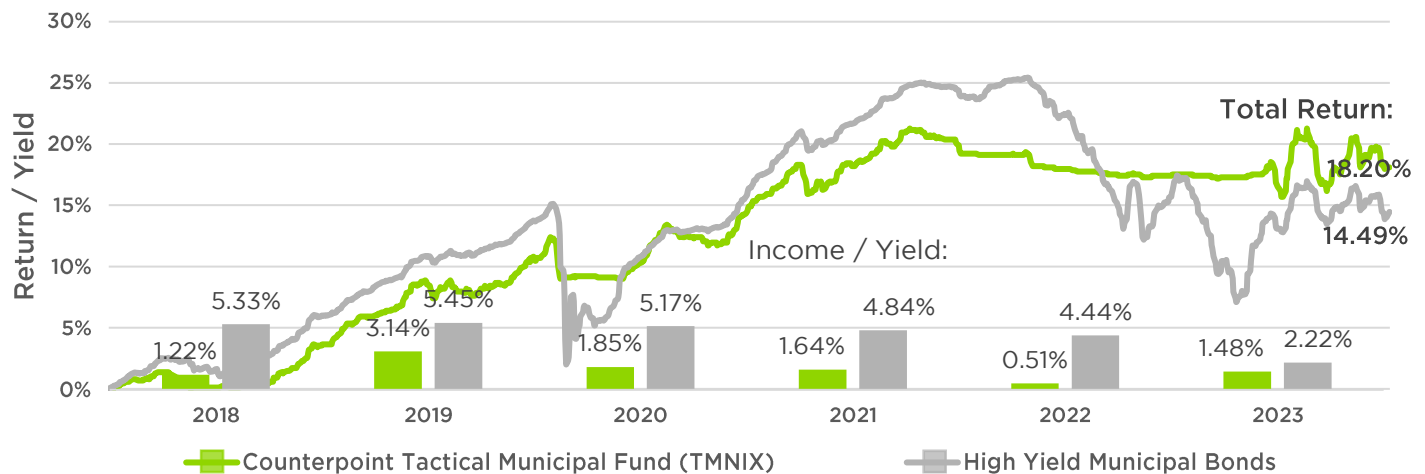
Given the volatility that has marked the first half of 2023, we wanted to briefly address how advisors can help clients balance opportunities in today’s fixed income environment. It should come as no surprise (thank you human nature) that investors are often tempted to time markets as market dynamics change. Managing this temptation to time markets has historically meant convincing clients not to over allocate into stocks. But this year, the same issues are popping up in bonds following the rise of 5%-yielding CDs and an **inverted yield curve**.

Traditionally, an investor might have simply looked at the average yield of an investment over the past year to help decide what to invest in today. However, this simplification can have unexpected results, because it overlooks the multiple roles that bonds typically play in a diversified portfolio:

- **Income (Yield)** is a return measure for an investment over a set period of time.
- **Total Return** is the percentage change in the value of an investment, and/or cash flows (income/yield) which the investor receives from that investment.
- **Capital Preservation** is a conservative investment strategy (a traditional role for bonds) where the primary goal is to preserve capital and prevent loss or offset equity volatility.

We believe that each of these factors should be properly balanced against the needs and goals of each client. The tax-free fixed income example below explores how these factors interact. The chart shows a passive high yield muni strategy and a tactical high yield muni strategy, such as the **Counterpoint Tactical Municipal Fund (TMNIX)**. Notice how income, total return, and capital preservation interact in each example.

TMNIX vs. High Yield Municipal Bonds - Yield & Return



Source: Bloomberg. Time period: 06/11/2018 to 05/31/2023. For illustrative purposes only. “High Yield Municipal Bonds” is entirely composed of the ICE BofA US Municipal High Yield Securities Index (UOHY) which is comprised of lower-rated and unrated U.S. dollar denominated tax-exempt debt publicly issued in the U.S. domestic market by U.S. states and territories as well as their political subdivisions and is intended to track the overall performance of the U.S. dollar denominated high yield long-term tax-exempt bond market.

The indices shown above are for informational purposes only and are not reflective of any investment. It is not possible to invest in an index. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

The performance data displayed here represents past performance, which is no guarantee of future results. 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. Current performance may be lower or higher than the performance data quoted. Please review the fund’s prospectus for more information regarding the fund’s fees and expenses. For performance information current to the most recent month-end, please call toll-free 844-273-8673.

As of May 31, 2023	2018*	2019	2020	2021	2022	2023 YTD	30 Day SEC Yield	Income Since Inception	Return Since Inception
TMNIX – Subsidized	1.22%	3.14%	1.85%	1.64%	0.51%	1.48%	3.40%	2.73%	3.42%
TMNIX – Unsubsidized	0.56%	2.47%	1.55%	1.54%	0.54%	1.49%	3.40%	1.64%	3.09%
High Yield Municipal Bonds	5.33%	5.45%	5.17%	4.84%	4.44%	2.22%	-	5.60%	3.13%
all returns are annualized income unless specified otherwise					Total Excess Over Benchmark Δ		-2.88%	0.29%	

*The Counterpoint Tactical Municipal Fund (TMNIX) inception date was on 6/11/2018.

Source: Bloomberg. “TMNIX – Unsubsidized” represents what the fund’s Yield would have been across various periods had no fee waivers or expense reimbursement been in place over the period. The SEC 30 Day Yield is a calculation based on a 30-day period ending on the last of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The figure listed lags by one month.

A quick reminder that a tactical strategy’s yield and return depend on the strategy’s positioning. When “risk-on” the yield and return will be driven by the yield and return in the high yield muni markets, and when “risk-off” the yield and return of tactical high yield will be driven by muni money markets.

Historically, tactical high yield muni strategies like TMNIX have captured a meaningful proportion of portfolio upside associated with investment in high yield municipal markets. Unlike traditional high yield municipal bond funds however, tactical high yield muni strategies don’t always track high yield muni as they **prioritize downside risk mitigation** via trend-following. The historical result of this process, as of May 11, 2023, may seem highly attractive annualized return profile (3.40%) given the fund’s maximum drawdown (-4.63%) since inception.

Bringing this back to the multiple roles that bonds play in a portfolio:

- **Income (Yield):** Whether using tactical or total return, the past year’s average yield didn’t help an investor predict what was going to happen in the coming year. While the tactical strategy had more years of lower yield than the passive, it did have a higher yield as well in 2021.
- **Total Return:** Although there are periods when the tactical strategy lags the passive strategy – especially during sharp snapback rallies like in 2020 and late 2022 – tactical high yield’s downside risk mitigation has supported superior total return since inception.
- **Capital Preservation:** Over the life of TMNIX, it has been historically shown to be superior to passive municipal counterparts from a downside risk standpoint.

TMNIX is just one example of why we believe it is important that the yield characteristics of a fixed income fund should be considered alongside the fund’s overall objective to see if they best align with needs and goals of your clients. If for instance your clients are worried about drawdowns, tactical high yield could be a **nice diversifying complement to a tax-free portfolio**. If your clients are instead looking to be opportunistic, tactical offers the potential to “keep powder dry” when looking for opportunities to buy the occasional sharp dip in muni markets.

As of May 31, 2023

QTD as of March 31, 2023

	Return Since Fund Inception	Year To Date	Return Since Fund Inception	1 Year Return	3 Year Return	Max Drawdown
Counterpoint Tactical Municipal Fund (TMNIX)	3.42%	2.21%	3.65%	0.87%	2.84%	-4.60%
High Yield Municipal Bonds	3.13%	6.74%	3.00%	-5.50%	0.43%	-14.62%

*The Counterpoint Tactical Municipal Fund (TMNIX) inception date was on 6/11/2018.

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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 total annual fund operating expenses are 1.47 %, 2.22% and 1.22% for Class A, C and I shares respectively. The Fund's maximum sales load for Class A shares is 4.50%. The Fund's adviser has contractually agreed to waive its fees and reimburse expenses of the Fund, at least until February 1, 2024 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 1.25%, 2.00% and 1.00% 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. This information is for use with concurrent or prior delivery of a fund prospectus. Investors should consider the investment objective, risks, and charges and expenses of the Fund before investing. The prospectus and the summary prospectus, contains this and other information about the Fund and should be read carefully before investing. The prospectus may be obtained by calling 844-273-8637. The fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Funds, LLC is not affiliated with Northern Lights Distributors, LLC member [FINRA/SIPC](#).

Important Risk Information

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 Municipal Bonds" is entirely composed of the ICE BofA US Municipal High Yield Securities Index (UOHY) which is comprised of lower-rated and unrated U.S. dollar denominated tax-exempt debt publicly issued in the U.S. domestic market by U.S. states and territories as well as their political subdivisions and is intended to track the overall performance of the U.S. dollar denominated high yield long-term tax-exempt bond market.

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.

Yield is a return measure for an investment over a set period of time, expressed as a percentage, and includes price increases as well as any dividends paid, calculated as the net realized return divided by the principal amount (i.e. amount invested).

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.

30 Day SEC Yield is a calculation based on a 30-day period ending on the last of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The figure listed lags by one month.

Subsidized Yield reflects fee waivers and/or expense reimbursements recorded by the Fund during the period. Without waivers and/or reimbursements, yields would be reduced. This yield does not necessarily reflect income actually earned and distributed by the Fund and, therefore, may not be correlated with the dividends or other distributions paid to shareholders.

Unsubsidized Yield does not adjust for any fee waivers and/or expense reimbursements in effect. If the Fund does not incur any fee waivers and/or expense reimbursements during the period, the Subsidized Yield and Unsubsidized Yield will be identical.

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