



# KCM Macro Trends Fund

Q4 2018 Investor Presentation

# Table of Contents

<b>1. Executive Summary</b>	
1.1 Strategy Highlights.....	3
1.2 History.....	4
<b>2. Investment Philosophy</b>	5
<b>3. Investment Process</b>	
3.1 Quantitative, Scalable and Liquid Strategy.....	6
3.2 Market Risk Assessment.....	7
3.3 Risk-On.....	8
3.4 Risk-Off.....	9
3.5 Model Development.....	10
3.6 Adaptive Selection & Weighting.....	11
3.7 Long Book Overview.....	12
3.8 Portfolio Construction.....	13
<b>4. Management Team</b>	14
<b>5. Appendix</b>	
5.1 Summary Terms.....	15
5.2 Glossary.....	16
5.3 Disclosures.....	17

# 1.1 Strategy Highlights

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## Strategy

- Equity-focused, open-ended, macro mutual fund organized under the Investment Act of 1940
- Opportunistic investing across all asset classes
- Quantitative bottoms-up stock picking
- Tactical top-down hedging
- Available in retail (KCMTX) and institutional (KCMIX) share classes

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## Objectives

- Primary: Long-term growth of capital
- Secondary: Manage volatility and risk

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## Approach

- Original research identifies unique factors and market inefficiencies based on fundamental financial analysis
- Aims to reduce emotion and behavioral bias from the investment process through the implementation of rules-based algorithms which produce buy and sell signals
- Risk on-risk off approach seeks returns in asset classes uncorrelated with equities during unfavorable risk levels

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## Leadership

- Marty Kerns, President, and Parker Binion, Chief Investment Officer, average more than 12 years investment management experience
- Marty Kerns joined the Firm in 2007 and was instrumental in launching the Fund

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## Track Record

- Fund awarded the Thomson Reuters Lipper Award for Best Alternative Global Macro Fund over five years in February 2018<sup>1</sup>
- Overall Morningstar Rating of five stars, and ranks in the top 1% of 180 Multialternative funds for the five-year period ending 12/31/18 based on total return<sup>2</sup>
- From its August 4, 2008 inception through the bear market bottom on March 8, 2009, the Fund avoided 66% of the S&P 500's 48.17% loss in value<sup>3</sup> and recovered after 2 months vs the S&P 500's 23 months

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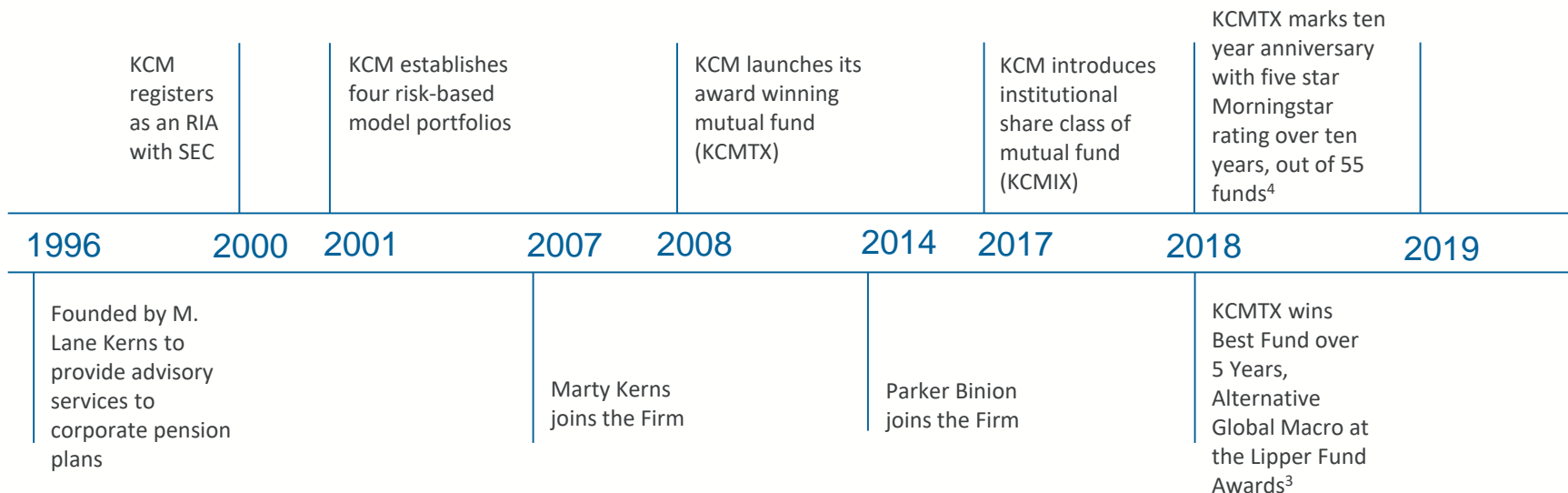
1. As of 11.30.17 out of 208 eligible share classes. More information as to methodology can be found at [lipperfundawards.com](http://lipperfundawards.com)

2. See Morningstar disclosures at end of document

3. Calculated from S&P 500 high on 8/11/08 to its market bottom on 3/8/09

## 1.2 Established History in Asset Management

- Established in 1996, Kerns Capital Management (“KCM”) has a track record of delivering innovative investment advisory solutions for institutions, family offices, high net worth individuals and corporate retirement plans<sup>1</sup>
- With \$241 million in assets under management,<sup>2</sup> KCM has successfully managed money through three bear markets. Our experience with the cyclical nature of the markets has guided our evolution and development of products designed to help investors grow and protect their portfolios



1. Experience managing, and the performance of, other investment funds and accounts managed by the Investment Adviser are not indications of the future success or performance of the Fund

2. Source: Form ADV June 2018.

3. As of 11.30.17 out of 208 eligible share classes. More information as to methodology can be found at [lipperfundawards.com](http://lipperfundawards.com)

4. See Morningstar disclosures at end of document for more detail

## 2. Investment Philosophy

Approach to Investing Defined by Five Core Tenets

### Original Research

- We do our own research; consensus opinions typically get benchmark results. We are trying to beat our benchmark; therefore we must be contrarian and have “active share”
- Methodology includes thesis, testing in and out-of-sample, and incubation before release (no data-mining)

### Disciplined Quantitative Investing

- We convert our research into quantitative models by developing buy rules, sell rules and ranking systems
- These models produce buy and sell signals that we follow in disciplined manner
- Doing so reduces emotion and behavioral bias in the investment process

### Equity Bias

- We favor equities over other asset classes because of their risk premium and return potential

### Risk Control

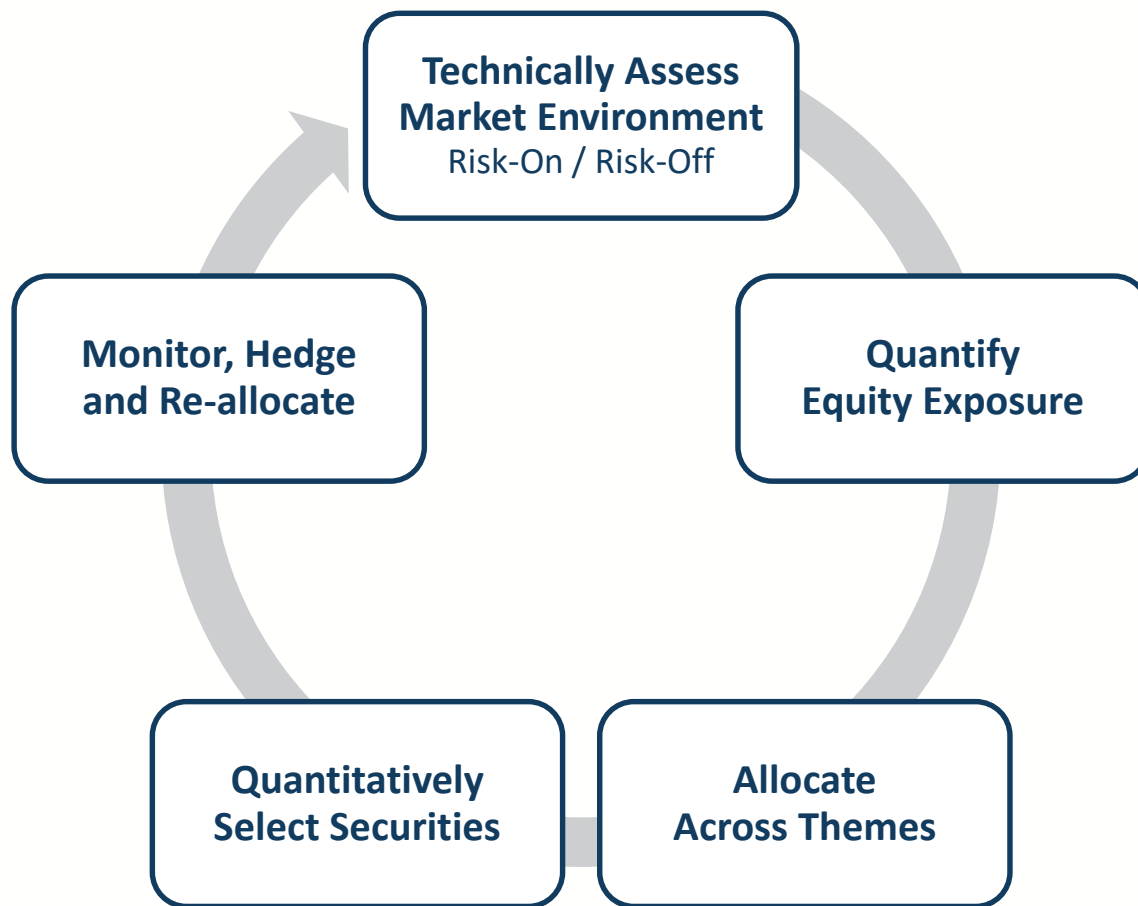
- Our risk control manifests itself in several ways:
  - Stock selection: we cap individual name exposure and sector exposure to diversify
  - Portfolio construction: we use relatively uncorrelated models and weight them in parity to the tail risk they pose

### Flexibility

- We have rules in place that guide us when markets get too risky, or extremely favorable
  - When markets get too risky, we can reduce our equity exposure and turn to other asset classes
  - When markets are favorable, we can increase our equity exposure

# 3.1 Investment Process

Implementing a Quantitative, Scalable and Liquid Strategy



## 3.2 Market Risk Assessment

### Risk Perception Drives Quantitative vs. Qualitative Strategy Implementation

Rules are based on breadth (such as the Summation Index), volume (including the Arms Index), price (e.g., pivot points, moving averages), volatility, sentiment, momentum & economic factors (unemployment, inflation, etc.) to determine whether the intermediate outlook for equities is positive (“Risk-On”) or not (“Risk-Off”).



#### RISK-ON

- Invest in equities
- *Quantitative* models drive analysis, portfolio construction, security selection and buy/sell discipline



#### RISK-OFF

- Reduce equity exposure
- *Qualitative* asset class analysis conducted while hedging equity exposure to market-neutral

### Multi-Asset Opportunistic Investing

- Top-down macro strategy applies quantitative, fundamentally-based portfolio construction
- U.S. equity-focused long/short (long bias)

### Long-Term Risk-Adjusted Capital Growth

- Manage portfolio risk and sector exposures
- Actively hedge to control volatility, preserve capital, and improve returns<sup>1</sup>

1. Statement of the Fund’s goals is no guarantee of future performance or results.

# 3.3 Investment Process

Risk On: Allocate Among Equity-Focused Investments

Risk-On

Rules-Based Macro Analysis

Quantitative Equity Strategies  
(Allocate 100%)

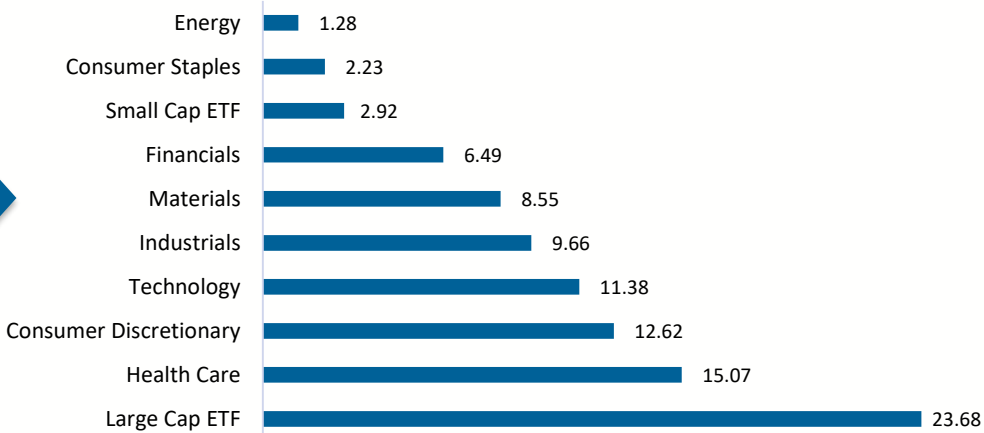
Systematic Research-Based  
(Buy/Sell Rules)



Diversified Across  
Thematic  
Opportunity



Top Sectors (%)

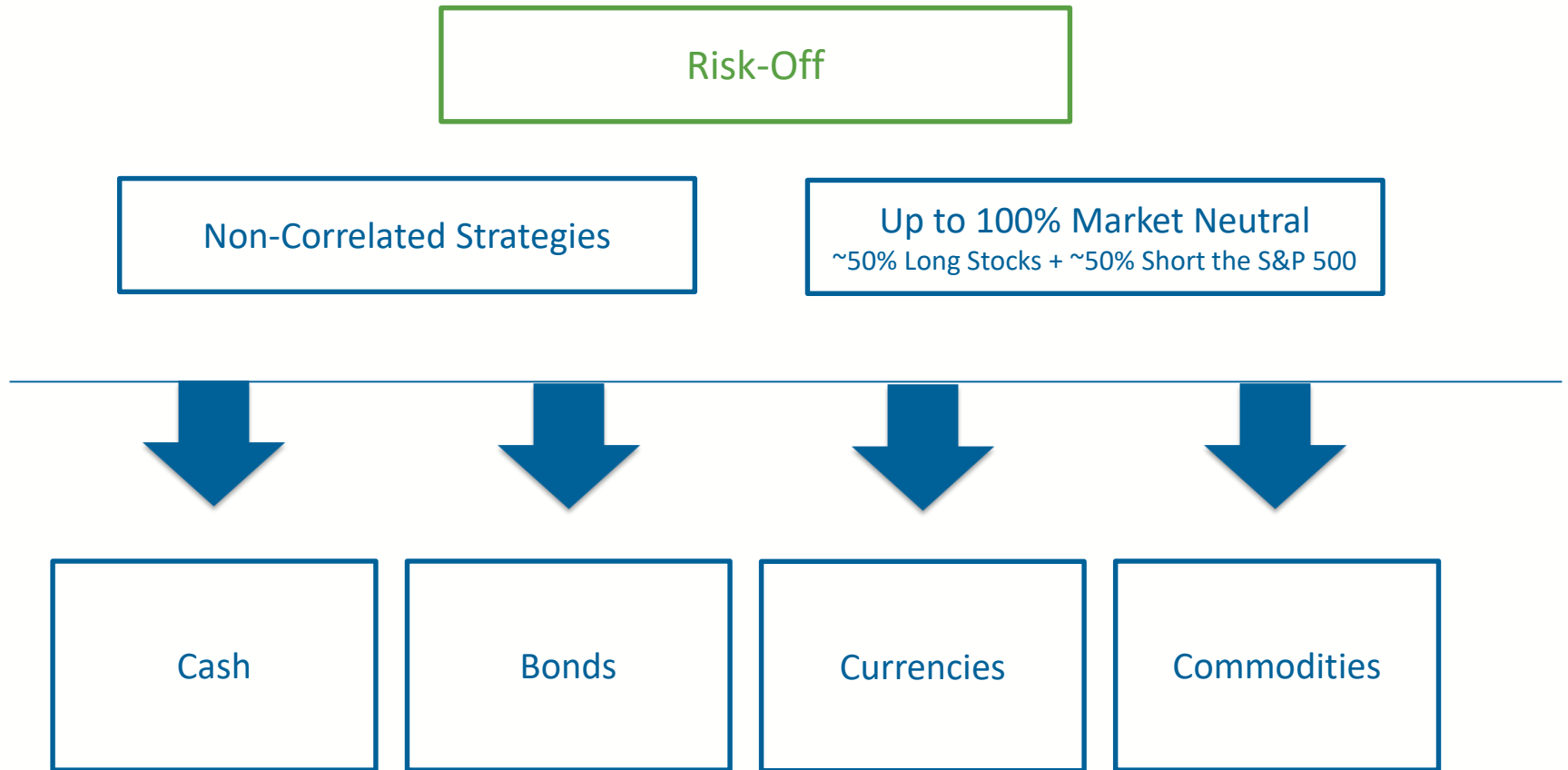


Note: Top Sectors as of December 31, 2018.



### 3.4 Investment Process

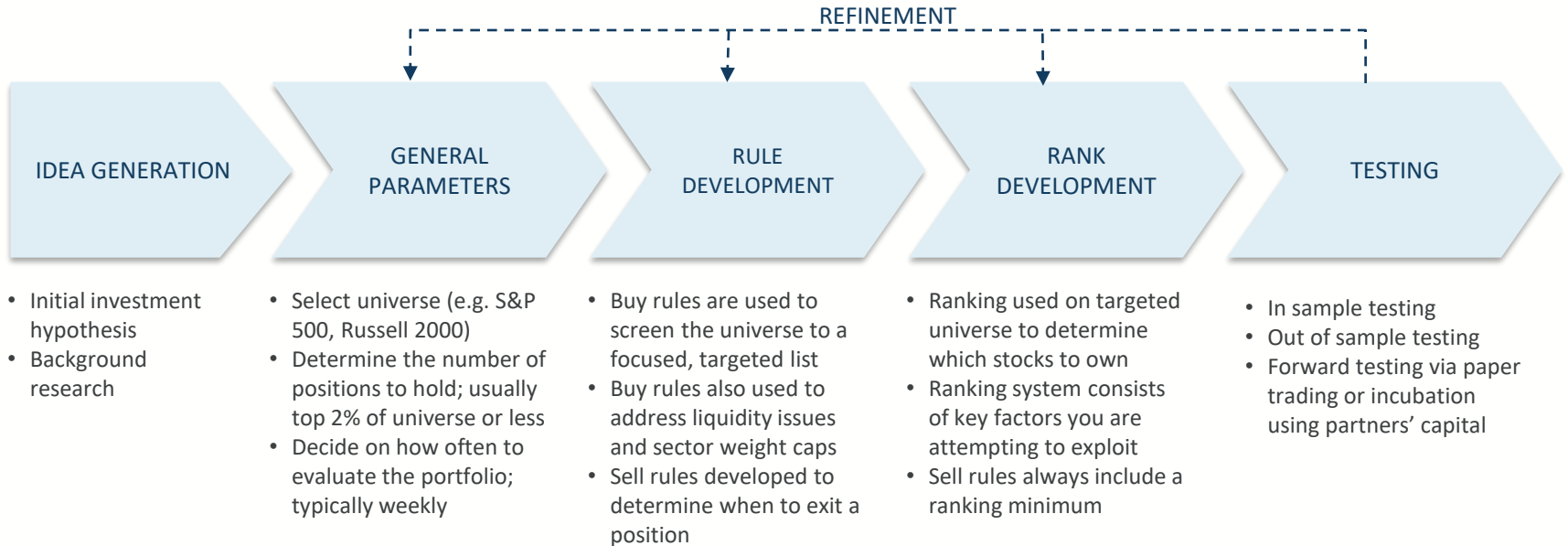
Risk Off: Pursue Market Neutral Investments Based on Qualitative Analysis



# 3.5 Investment Process

## Development of Quantitative Models

- We use a rigorous process for developing quantitative models for use in the strategy



- Once a model has satisfied all testing steps it is ready to be incorporated in the strategy
- All models are monitored on an ongoing basis against a benchmark to evaluate performance. We recognize that models may decay over time; thus we are constantly generating ideas and refinements for new and existing models

## 3.6 Investment Process

### Quantitative Stock Selection Adapts to Market Environment

#### Risk Perception Drives Choice and Weighting of Quantitative Long Holdings

- Long holdings diversified across independent strategies
  - Each strategy based on original research exploiting various factors driving stock performance
  - Strategies weighted in proportion to tail risk and volatility potential
    - Strategies with less risk are given more weight
    - Strategies with built in “go to cash” rules have less risk
    - These strategies are typically weighted twice as heavily as strategies that stay 100% invested at all times
  - Strategies use ranking systems that adapt to market conditions
    - For example, our dividend model prioritizes a low payout ratio in bull markets and a high payout ratio in bear markets
    - Market timing rules are built into the ranking system
- Long models in new bull markets (when stocks are less expensive) will focus on value
  - Rules-based definition for new bull markets
- Lower beta models emphasized in down-trending markets
- Momentum models emphasized in mature bull markets

## 3.7 Investment Process

### What We Look For – Long Models

- The table below outlines a selection of the long models, each designed to deliver alpha over time

Theme	Factor	Characteristics	Universe	Positions
<b>Spinoffs</b>	<ul style="list-style-type: none"> <li>Earnings Sentiment</li> </ul>	<ul style="list-style-type: none"> <li>Buys recent spinoffs with excellent earnings potential</li> </ul>	<ul style="list-style-type: none"> <li>S&amp;P 1500+</li> <li>Nasdaq 100+</li> <li>Russell 1000</li> </ul>	<ul style="list-style-type: none"> <li>10</li> </ul>
<b>Quality</b>	<ul style="list-style-type: none"> <li>Indexing Bubble</li> </ul>	<ul style="list-style-type: none"> <li>Buys quality stocks unburdened by too much passive index inflows</li> </ul>	<ul style="list-style-type: none"> <li>Dow 30</li> </ul>	<ul style="list-style-type: none"> <li>8</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>Earnings Growth</li> <li>Reinvestment</li> </ul>	<ul style="list-style-type: none"> <li>Buys stocks with strong earnings &amp; operating income growth, combined with good quality and sentiment measures</li> <li>Buys nonfinancial companies that invest heavily in R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>Russell 2000</li> <li>S&amp;P 500 + Nasdaq 100</li> </ul>	<ul style="list-style-type: none"> <li>20</li> <li>10</li> </ul>
<b>Momentum</b>	<ul style="list-style-type: none"> <li>Momentum</li> </ul>	<ul style="list-style-type: none"> <li>Buys stocks showing recent relative strength; cuts losers quickly</li> </ul>	<ul style="list-style-type: none"> <li>S&amp;P 500</li> </ul>	<ul style="list-style-type: none"> <li>10</li> </ul>
<b>Earnings Drift</b>	<ul style="list-style-type: none"> <li>Sentiment</li> </ul>	<ul style="list-style-type: none"> <li>Buys stocks near earnings with excellent sentiment outlook</li> </ul>	<ul style="list-style-type: none"> <li>S&amp;P 1500 “Plus”</li> </ul>	<ul style="list-style-type: none"> <li>10-30</li> </ul>

- The above is not a comprehensive list. There are additional models covering investment themes including Value, Emerging Markets, Earnings Drift Momentum, Sentiment and Volatility. We may not be invested at all times in all models.

## 3.8 Portfolio Construction

### Managing Risk by Applying Guidelines to Positions, Exposures, and Portfolio Weights

#### Positions

- 60-100 positions
- Maximum single stock position size of ~3% of aggregate portfolio
- Portfolio turnover of 534%<sup>1</sup>

#### Exposures (figures are approximate)

- Long: 0-133%, with leverage<sup>2</sup>
- Short: 0-50%
- Net: -10-133%, with leverage
- Maximum leverage: 133%
- Liquidity: At least 70% of holdings > \$5b market cap

#### Portfolio Weights

- Country: 80-100% U.S. domiciled or listed
- Asset class: 0-100% equities
- Sector: Generally less than 25%

#### Benchmarks

- HFRX Equity Hedge Index
- Morningstar Multialternative™ Category<sup>3</sup>

Note: This summary of risk guidelines is provided as a general overview, and is subject to customization with a separately managed account.

1. Prospectus as of 8/28/2018
2. The Fund may use leveraging and/or hedging techniques that could fail if changes in the value of the derivative do not correlate with the securities being hedged. These risks may result in greater share price volatility.
3. See Appendix for definition of HFRX and Morningstar Multialternative Category

## 4. Management



**Marty Kerns** is the President and Chief Executive Officer of Kerns Capital Management, Inc., and is the lead portfolio manager of the KCM Macro Trends Fund, which he and his father launched in 2008. Prior to joining Kerns in 2007, Mr. Kerns practiced law for 15 years and was a partner in the Houston law firm of Beirne, Maynard & Parsons, L.L.P. He is a former board member of the Guggenheim/Rydex Dynamic Advisory Board and the National Association of Active Investment Managers. Mr. Kerns holds a B.B.A. in finance from the University of Texas at Austin and a J.D. from South Texas College of Law.



**Parker Binion** is the Chief Investment Officer of Kerns Capital Management, Inc., and is co-portfolio manager of the KCM Macro Trends Fund. He also manages the firm's separately managed account strategies and hedging/net exposure strategies. Prior to joining Kerns in 2014, Mr. Binion worked as an investment advisor representative for Heritage Capital, and practiced law for 17 years at several prestigious Houston law firms. Mr. Binion holds an A.B. in political science with a concentration in economics from Duke University and a J.D. with honors from the University of Texas at Austin where he served as an Articles Editor on the Texas Law Review.

## 5.1 Summary Terms

<b>Structure</b>	Mutual Fund organized under the Investment Act of 1940		
<b>Available Classes</b>	R-1 (KCMTX); Institutional (KCMIX); Separate Account		
<b>Investment Advisor</b>	Kerns Capital Management		
	<b>KCMTX</b>	<b>KCMIX</b>	<b>Separate Account</b>
<b>Inception</b>	Aug. 4, 2008	Mar. 20, 2017	Available
<b>Minimum Initial Investment</b>	\$1,000	\$250,000	\$1,000,000
<b>Liquidity</b>	Daily	Daily	Daily
<b>Sales &amp; Redemption Fees</b>	None	None	None
<b>Management Fee</b>	1.0%	1.0%	None
<b>Performance Fee</b>	None	None	30%
<b>Operating Expenses</b>	1.66%	1.65%	N/A
<b>Load Type</b>	No Load	No Load	N/A
<b>Fund Distributor</b>	Northern Lights Distributors		
<b>Custodian</b>	Fifth Third Bank		
<b>Auditor</b>	RSM, LLP		
<b>Administrator</b>	Gemini Fund Services		
<b>Legal</b>	Thompson Hine		

## 5.2 Definitions

**ADR.** Stands for American Depositary Receipt. An ADR is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas. Holders of ADRs realize any dividends and capital gains in U.S. dollars, but dividend payments in euros are converted to U.S. dollars, net of conversion expenses and foreign taxes.

**EBITDA.** Stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for the earning potential of a business. Further, EBITDA strips out the cost of debt capital and its tax effects by adding back interest and taxes to earnings.

**Hedge.** A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**Long.** The buying of a security such as a stock, commodity or currency with the expectation that the asset will rise in value.

**Long/Short (long-bias).** An investing strategy of taking long positions in stocks that are expected to appreciate, and short positions in stocks that are expected to decline. A long/short equity strategy seeks to minimize market exposure, while profiting from stock gains in the long positions, and price declines in the short positions. A long-bias fund maintains a differing ratio of long positions (compared to short positions) that usually exceeds 40% in order to benefit during rising markets.

**Market Liquidity.** Market liquidity refers to the extent to which a market, such as a country's stock market or a city's real estate market, allows assets to be bought and sold at stable prices. Cash is the most liquid asset, while real estate, fine art and collectibles are relatively illiquid.

**Quant Fund.** An investment fund that selects securities based on quantitative analysis. In a quant fund, the managers build computer-based models to determine whether an investment is attractive.

**Short.** A sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume they will be able to buy the stock at a lower amount than the price at which they sold short.

**Top-Down, Macro Trends Analysis.** Top-down investing is an investment approach that involves analyzing the overall picture of the economy and breaking down the various components into finer details. After considering the macro-economic conditions around the world, analysts examine different industrial sectors to select those that are forecast to outperform the market. From this point, they further analyze stocks of specific companies to choose potentially successful investments. Macro refers to a large-scale trend.

**HFRX Equity Hedge Index** strategies maintain positions both long and short in primarily equity and equity derivative securities. HFRX Indices utilize state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte-Carlo simulations and optimization techniques to ensure that each Index is a pure representation of its corresponding investment focus.



## 5.3 Fund's Risk Disclosures

Mutual funds involve risk including possible loss of principal. Investors should carefully consider the investment objectives, risks, charges and expenses of the KCM Macro Trends Fund before investing. The Fund may invest in small, less well-known companies, which may be subject to more erratic market movements than large-cap stocks; foreign securities, which are subject to currency fluctuations and political uncertainty; and derivative securities, which may carry market, credit, and liquidity risks. The Fund may also engage in short selling activities, which are more risky than long positions because the potential loss on a short sale is unlimited. The Fund may use leveraging and/or hedging techniques that could fail if changes in the value of the derivative do not correlate with the securities being hedged. These risks may result in greater share price volatility.

Investors should carefully consider the investment objectives, risks, charges and expenses of the KCM Macro Trends Fund. This and other important information about the fund is contained in the prospectus, which can be obtained at [www.kernscapital.com](http://www.kernscapital.com) or by calling 800-945-2125. The prospectus should be read carefully before investing.

The KCM Macro Trends Fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Kerns Capital Management, Inc. and Northern Lights Distributors, LLC are not affiliated. 3072-NLD-1/17/2019

## 5.3 Disclosures

**Past performance is not a guarantee of future results.** Current performance may be lower or higher than the performance quoted. Past performance, ratings and ranking are not a guarantee of future results and are just three forms of performance measurement. There is no guarantee that any investment will achieve its objective, generate positive returns, or avoid losses.

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The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. KCMTX was rated against 290, 179 and 62 U.S.-domiciled Multialternative funds for the three-, five- and ten-year periods ending 12/31/18. KCMTX received Morningstar ratings of five stars for the three-year, five-year and ten-year periods. Morningstar Rating is for the R-1 share class only; other classes may have different performance characteristics.

Lipper, Inc: The Best Alternative Global Macro Fund award is granted to the fund in the Alternative Global Macro category with the highest Lipper Leader score for Consistent Return over the 5-year period as of 11/30/18. Lipper awards are granted annually to the funds in each Lipper classification that achieve the highest score for Consistent Return, a measure of funds’ historical risk-adjusted returns, relative to peers. From Thomson Reuters Lipper Awards, © 2018 Thomson Reuters. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited. Lipper, a wholly owned subsidiary of Thomson Reuters, is a leading global provider of mutual fund information and analysis to fund companies, financial intermediaries and media organizations.

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