



# ALPHACENTRIC HEDGED MARKET OPPORTUNITY FUND

HMXAX | HMXCX | HMXIX

## Q3 2018 Presentation

The Fund's objective is to achieve long-term capital appreciation

# DISCLOSURES

**Investors should carefully consider the investment objectives, risks, charges and expenses of the AlphaCentric Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 844-ACFUNDS (844-223-8637) or at [www.AlphaCentricFunds.com](http://www.AlphaCentricFunds.com). The prospectus should be read carefully before investing. The AlphaCentric Funds are distributed by Northern Lights Distributors, LLC, member FINRA. AlphaCentric Advisors LLC is not affiliated with Northern Lights Distributors, LLC**

The Performance shown before September 30, 2016 is for the Fund's Predecessor Fund (Theta Funds, L.P.) The Fund's management practices, investment goals, policies, objectives, guidelines and restrictions are, in all material respects, equivalent to the predecessor limited partnership. From its inception date, the predecessor limited partnership was not subject to certain investment restrictions, diversification requirements and other restrictions of the 1940 Act of the Code, if they had been applicable, it might have adversely affected its performance. In addition, the predecessor limited partnership was not subject to sales loads that would have adversely affected performance. Performance of the predecessor fund is not an indicator of future results.

Investing in the Fund carries certain risks. The Fund will invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives and the resulting high portfolio turn-over may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities and commodities underlying those derivatives. The Fund may experience losses that exceed those experienced by funds that do not use futures contracts and options strategies. Investing in commodities markets may subject the Fund to greater volatility than investments in traditional securities. Currency trading risks include market risk, credit risk and country risk. Foreign investing involves risks not typically associated with U.S. investments. Changes in interest rates and the liquidity of certain investments could affect the Fund's overall performance. The Fund is non-diversified and as a result, changes in the value of a single security may have significant effect on the Fund's value. Other risks include U.S. Government securities risks and investments in fixed income securities. Typically, a rise in interest rates causes a decline in the value of fixed income securities or derivatives owned by the Fund. Furthermore, the use of leveraging can magnify the potential for gain or loss and amplify the effects of market volatility on the Fund's share price. The Fund is subject to regulatory change and tax risks; changes to current rules could increase costs associated with an investment in the Fund. These factors may affect the value of your investment.

# THE ALPHACENTRIC HEDGED MARKET OPPORTUNITY FUND (HMXIX) SEEKS LONG-TERM CAPITAL APPRECIATION

## HMXIX INVESTMENT STRATEGY

- The Fund makes long and short investments in call and put options on instruments that reflect the S&P 500 and its volatility.
- The Fund employs a systematic, rules-based options strategy that includes **Premium Collection**, **Volatility Trading** and, **Trend Following** based on an algorithm developed by analyzing market data since 1985 with artificial intelligence programs.
- The Fund seeks to mitigate risk by staggering position maturity dates and utilizing exchange-traded options guaranteed for settlement.

There are risks associated with the sale and purchase of call and put options. There is a risk that changes in volatility assumptions are not consistent or correlated for options of various terms to expiration. There is no assurance that the Fund will achieve its investment objective.

## HMXIX INVESTMENT CHARACTERISTICS

Low Volatility

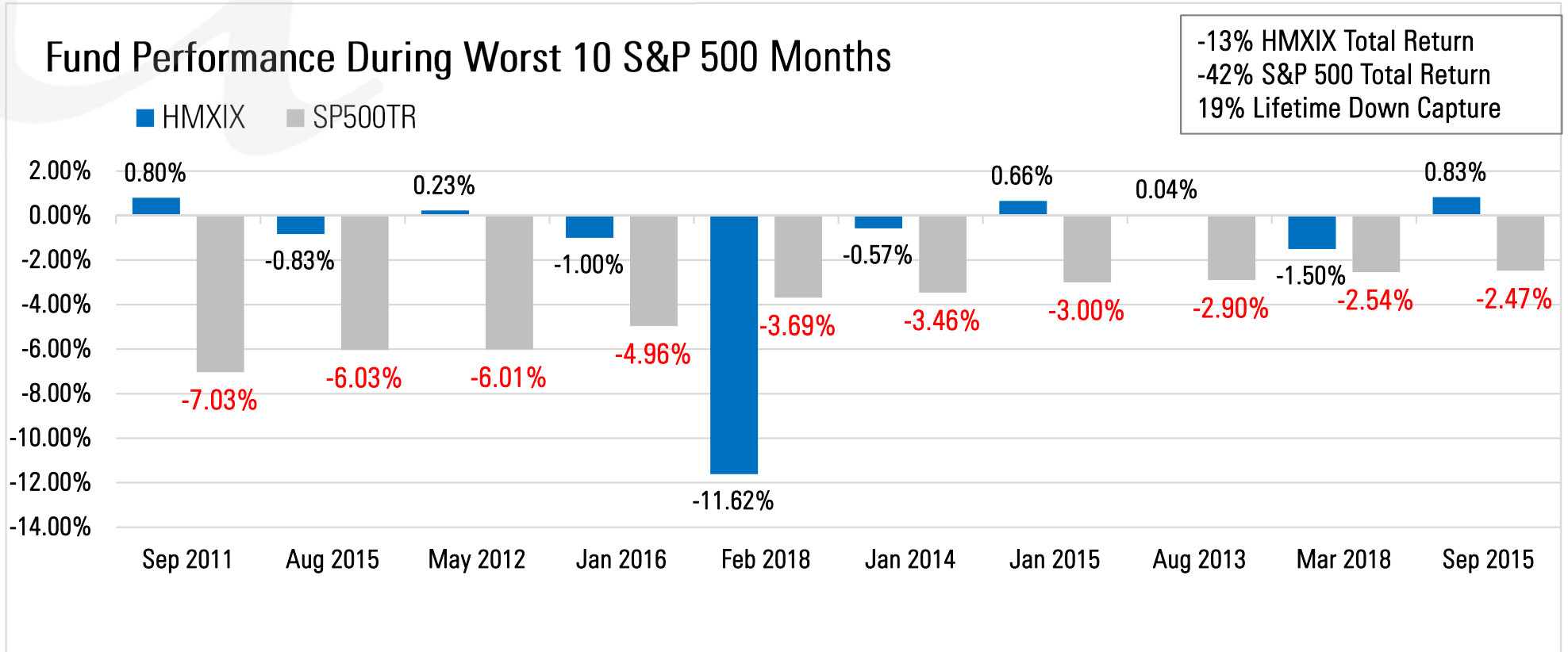
Low Market Correlation

Low Beta

Strong Risk Adjusted Returns

Defined Risk Guidelines

# HMXIX HAS DELIVERED STRONG PERFORMANCE DURING ADVERSE MARKET ENVIRONMENTS

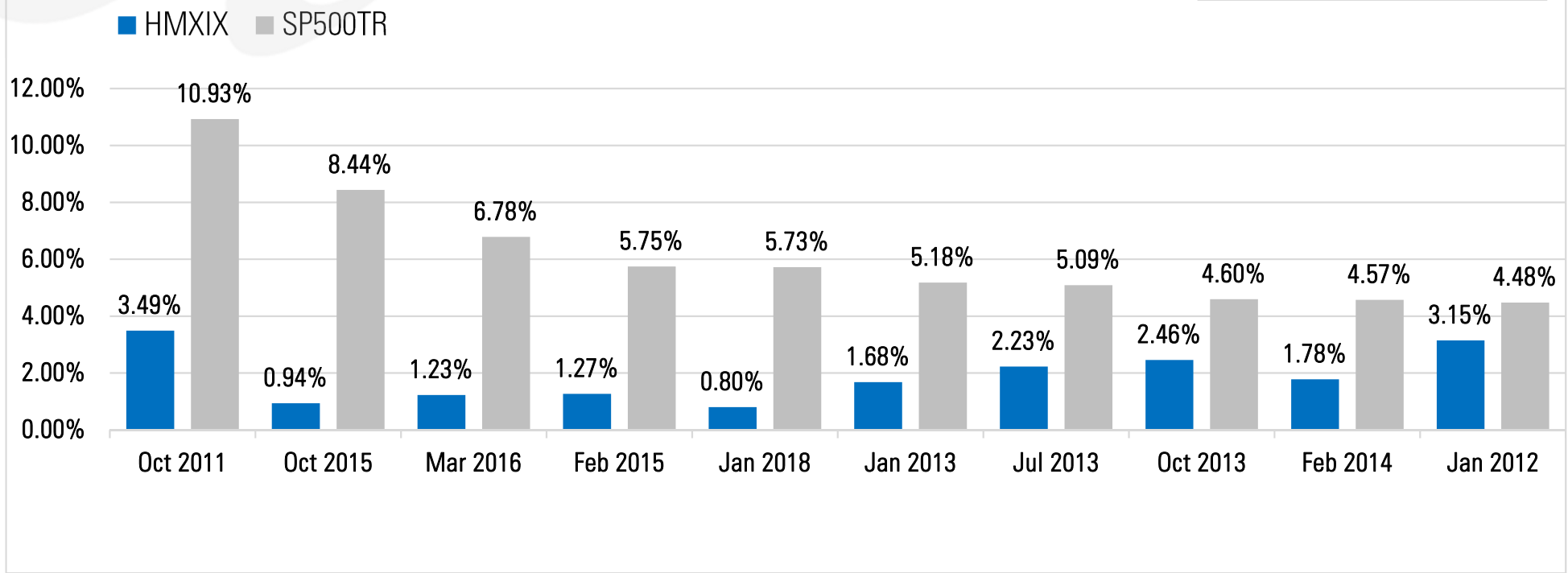


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# HMXIX HAS DELIVERED CONSISTENT PERFORMANCE DURING STRONG MARKET ENVIRONMENTS

Fund Performance During Best 10 S&P 500 Months

19% HMXIX Total Return  
62% S&P 500 Total Return

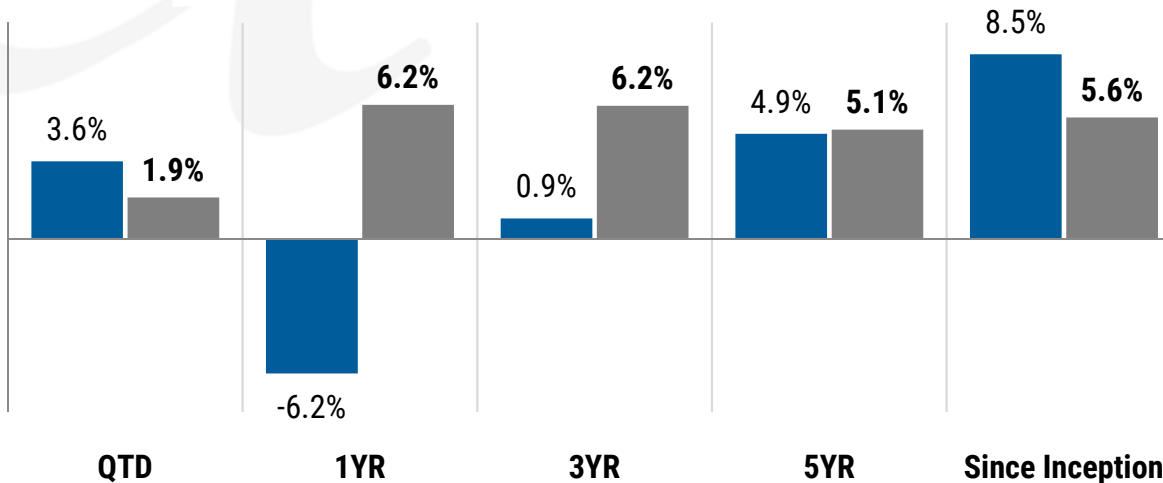


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# FUND RETURN SUMMARY

## HMXIX RETURN SUMMARY SINCE INCEPTION<sup>1</sup> (as of 09/30/2018)

■ HMXIX ■ IQ Hedge Long/Short Beta Index



Fund Inception: 9/1/2011 (Class I) & 9/30/2016 (Class A & C).

### PERFORMANCE ENDING September 30, 2018 (Annualized if greater than 1 year)

Share Class/Benchmark	QTD	YTD	1 YR	3 YR	5 YR	Since Inception
Class I	3.59	-7.38	-6.22	0.95	4.86	8.54
Class A	3.50	-8.05	-7.00	n/a	n/a	-1.09
Class A w/ Sales Charge	-2.45	-13.35	-12.36	n/a	n/a	-3.97

The maximum sales charge for Class "A" Shares is 5.75%. Performance is historic and does not guarantee future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month end performance information or the funds prospectus please call the fund, toll free at 1-844-ACFUND (844-223-8637). You can also obtain a prospectus at [www.AlphaCentricFunds.com](http://www.AlphaCentricFunds.com).

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### HMXIX Correlations<sup>2</sup> (vs. Major Asset Classes since 9/30/2011)

Corporate Bonds	0.15
Real Estate	0.27
Commodities	0.20
EM Equities	0.30
<b>US Equity</b>	<b>0.38</b>
Long/Short	0.23
World Stocks	0.40

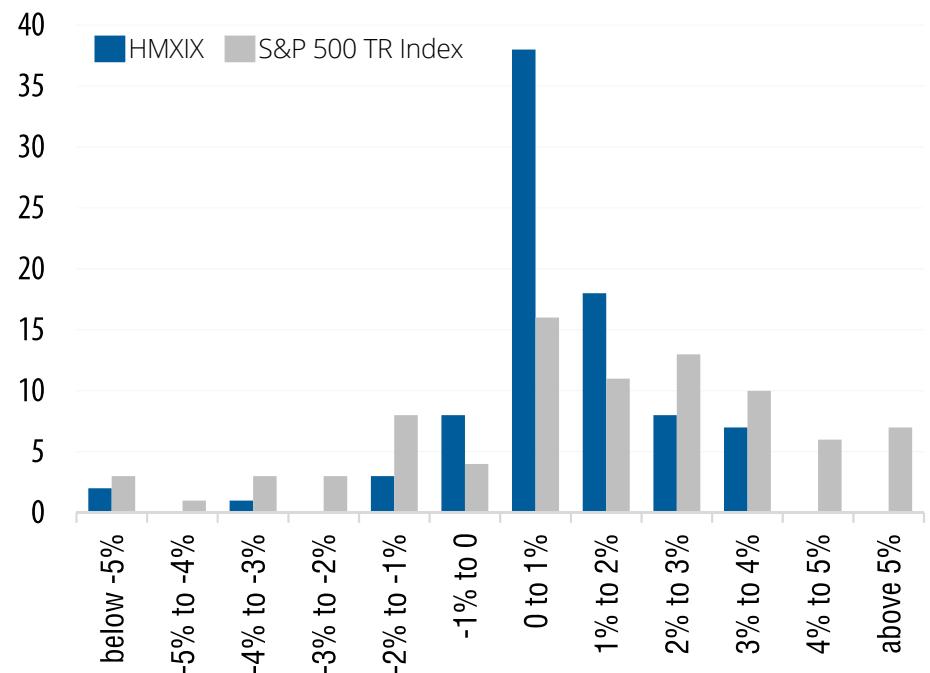
Commodities: S&P GSCI Index, World Stocks: MSCI World Index, Real Estate: NAREIT Index, Hedge Funds: IQ Hedge Beta Long/Short Index, U.S. Bonds: Barclays U.S. Aggregate Bond Index, EM Equities: MSCI Emerging Markets Index

# HMXIX HAS DELIVERED STRONG PERFORMANCE

## PERFORMANCE & RISK STATISTICS (Since Inception)

	HMXIX	IQ Hedge L/S Beta Index
Cumulative Return	78.64%	47.36%
Annualized Return	8.54%	5.62%
Standard Deviation	6.63%	6.64%
Sharpe Ratio <i>(RF=0.76%)</i>	0.96	0.52
Risk-Adjusted Alpha <i>(vs. S&amp;P 500)</i>	3.20%	-3.73%
Beta <i>(vs. S&amp;P 500)</i>	0.24	0.54
% of Positive Months	82.35%	60.00%
Up Capture	24.24%	-
Down Capture	19.42%	-

## DISTRIBUTION OF MONTHLY RETURNS (as of 09/30/2018)



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# THE FUND EMPLOYS A SYSTEMATIC, RULES-BASED OPTIONS STRATEGY BASED ON AN ALGORITHM DEVELOPED BY ANALYZING MARKET DATA SINCE 1985 WITH ARTIFICIAL INTELLIGENCE PROGRAMS.

## Overview of the Strategy

- Insurance companies, pensions, endowments and other institutions use options seeking to hedge their equity positions.
- We are the counter-party to their hedge.
- We then hedge our own position (i.e., buy reinsurance).
- When we initiate a position, we collect the option premium. We seek options we believe have a probability of expiring worthless.

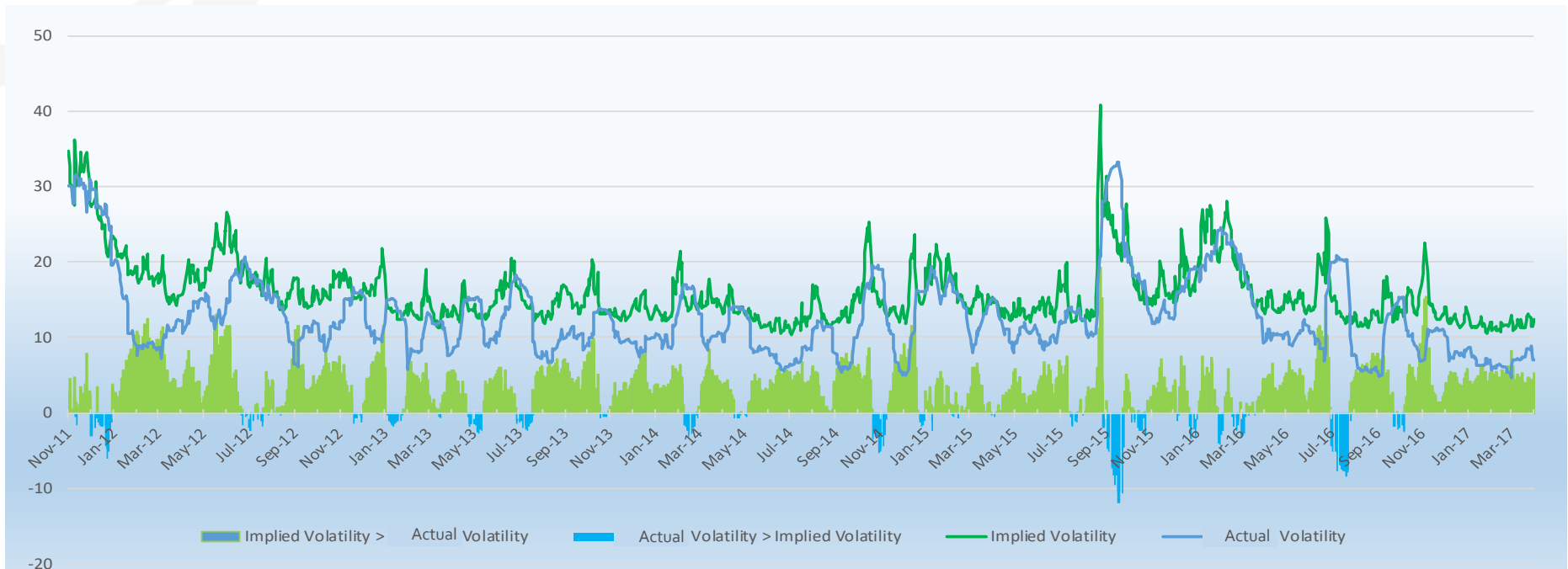
## Other Important Fund Attributes

- Tax Treatment – Some of the Fund’s holdings are classified as “Section 1256 Contracts”. By IRS code, this means that gains and losses are reported as 60% long term and 40% short term, regardless of holding period

Hedging is a strategy that attempts to reduce risk, however the effectiveness of a hedge can be difficult to predict due to the fluctuating and uncertain nature of investments which can be the cause of additional costs and risks to the fund. There is no assurance that the Fund will achieve its investment objective.



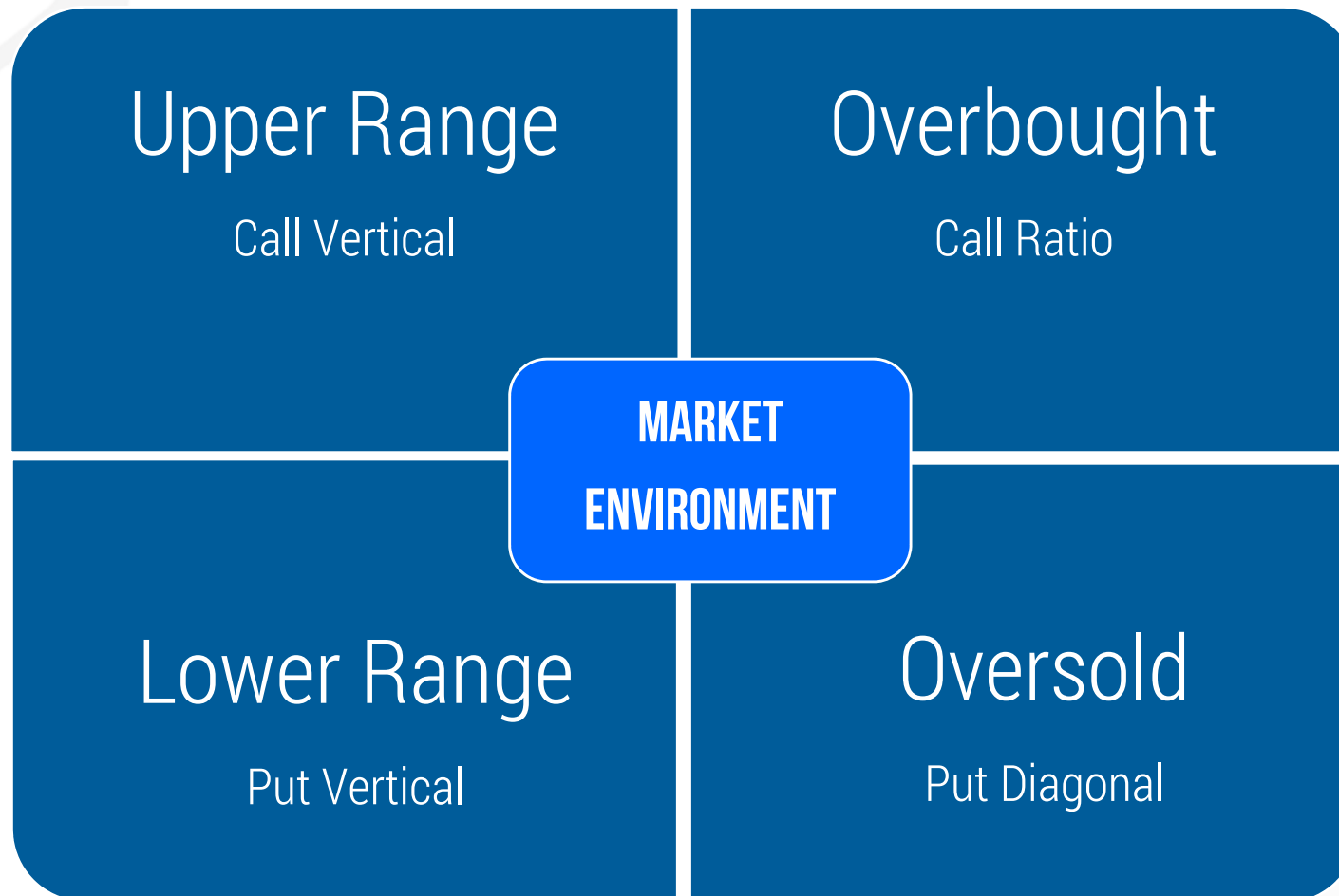
# INVESTORS PURCHASE OPTION PROTECTION WITH NEGATIVE EXPECTED VALUE



- Option buyers typically have negative return expectations
- HMXIX sells options realizing a positive expected return
- The US stock market capitalization exceeds \$22 trillion\*
- Long Investors (pensions, mutuals, endowments, insurance cos,...) buy options to hedge
- There are no natural option sellers
- The excess of premium cost over risk (the excess of IV over AV) is the inherent profit

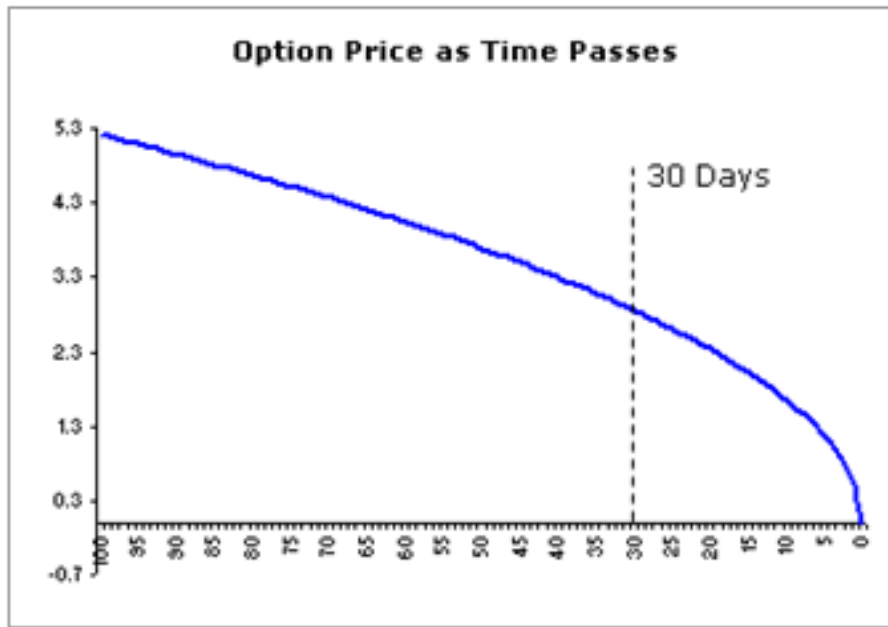
Selling an option may entail more risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably.

# TRADE STRUCTURE IS DEPENDENT ON MARKET ENVIRONMENT



Of course, there is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

# OPTION TIME DECAY CAN BE PROFITABLE EVEN IN STAGNANT MARKET CONDITIONS

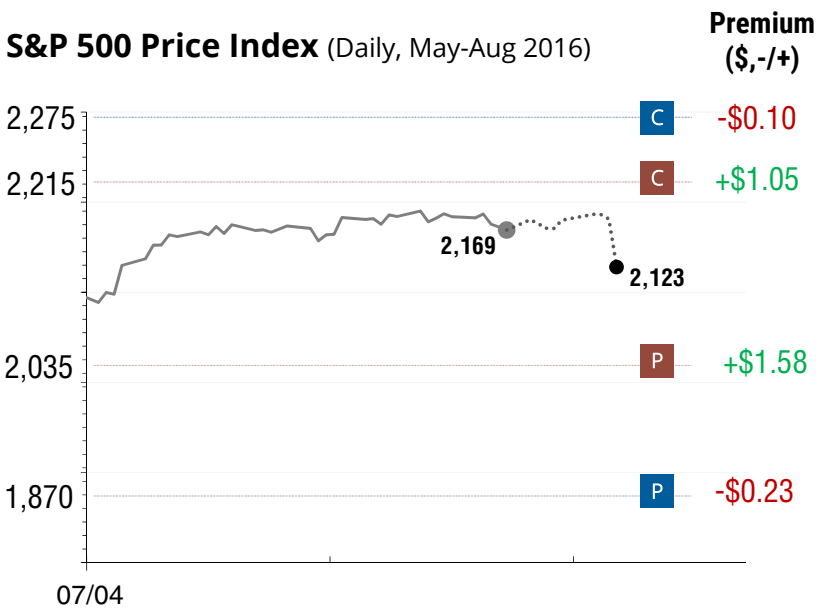


- As options are expiring assets, the entire extrinsic value is exposed to time decay, which will, all else held equal, eat away at the value of an option every day.
- The amount of time decay will increase as the option approaches expiration.
- An option has no time value at expiration and is only worth its intrinsic value.

Option premium values can be affected by changes in volatility. Volatility can be unpredictable which may cause a high degree of risk for option sellers.

# IMPLEMENTATION EXAMPLE

- The S&P 500 (SPX) is at 2169 and we initiate a two week position on Aug. 26, 2016.
- Our models show a 97% probability that SPX will remain between 2,035 (-6.18%) and 2,215 (+2.12%) for the two weeks through Sep. 9, 2016.



### Step 1 Provide the 'Insurance'

- C** We **Buy a Call** with a strike price of 2275 (we are protected if SPX goes above 2275)
- C** We **Sell a Call** with a strike price of 2215 (the buyer is protected if SPX goes above 2215)

### Step 2 Hedge our position

- P** We **Sell a Put** with a strike price of 2035 (the buyer is protected if SPX goes below 2035)
- P** We **Buy a Put** with a strike price of 1870 (we are protected if SPX drops below 1870)

### Pro's

- Wide range of profitability
- Profitable in most downward markets
- Profitable in most upward markets

### Con's

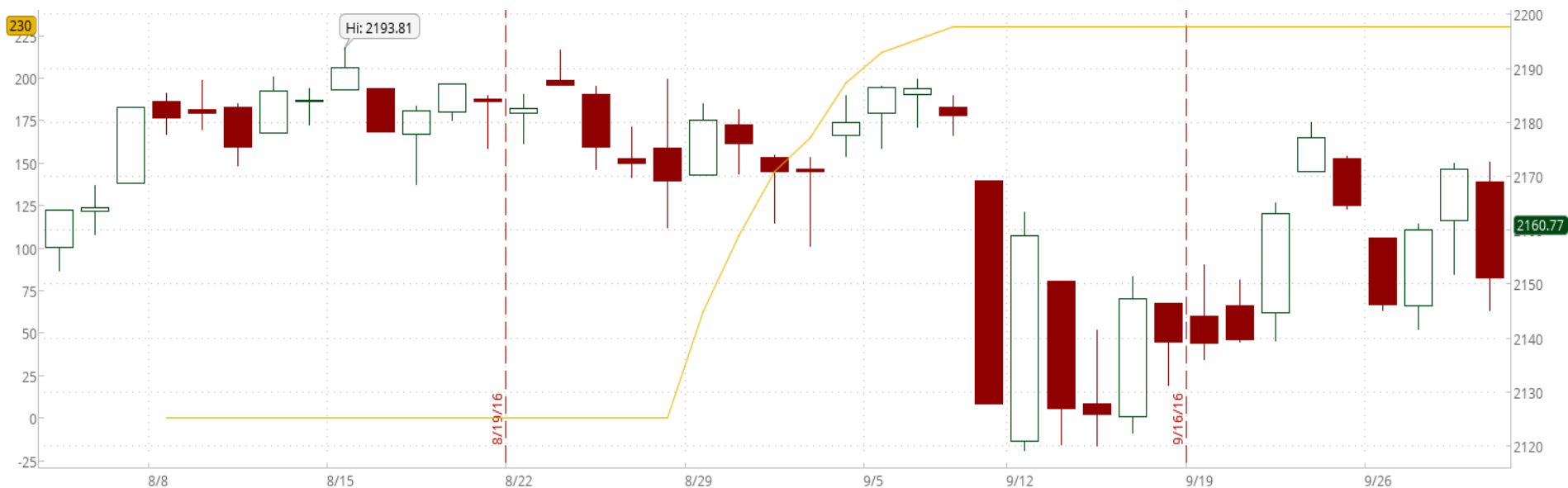
- Unprofitable in dramatic up or down markets

*The above is a general illustration and does not represent actual trading results. Option strategies which are intended to limit losses may not be effective because of changes in market conditions and may make it impossible to execute such orders.*

# IMPLEMENTATION EXAMPLE

**26-Aug-16**      **SPX : 2169**      **VIX: 13.65**  
**9-Sep-16**      **SPX : 2128**      **VIX: 17.50**      **14 days lapsed**

		Inception 26-Aug		Expiration 9-Sep	P/(L) 14 Days
Put 1870	B	(\$0.23)	S	\$0.00	(\$0.23)
Put 2035	S	\$1.58	B	\$0.00	\$1.58
Call 2215	S	\$1.05	B	\$0.00	\$1.05
Call 2275	B	(\$0.10)	S	\$0.00	(\$0.10)
<b>Total</b>		<b>\$2.30</b>		<b>\$0.00</b>	<b>\$2.30</b>



*There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.*

# Methodology

**APPROACH:** For each put option that is sold, the long option portfolio is rebalanced.

**IMPLEMENTATION:** The initial positions and subsequent adjustments are based on an algorithm developed by analyzing market data since 1985 with artificial intelligence programs, taking into consideration:

Seeking initial positions we believe have a greater probability of expiring worthless.

- **POSITIONS:** Position sizing will decrease and distance from the market will increase based on:
  - Theta option pricing model.
  - Theta Market Volatility Forecaster.
  - Theta Market Range Forecaster.

**RISK MANAGEMENT:** Delta hedging is done with S&P 500 futures and long options

Partial hedging is done with a fund loss of 0.5% to 1%.

Positions are 25% liquidated with a fund loss of 2.5%.

Positions are 50% liquidated with a fund loss of 5.0%.

Positions are 75% liquidated with a fund loss of 7.5%.

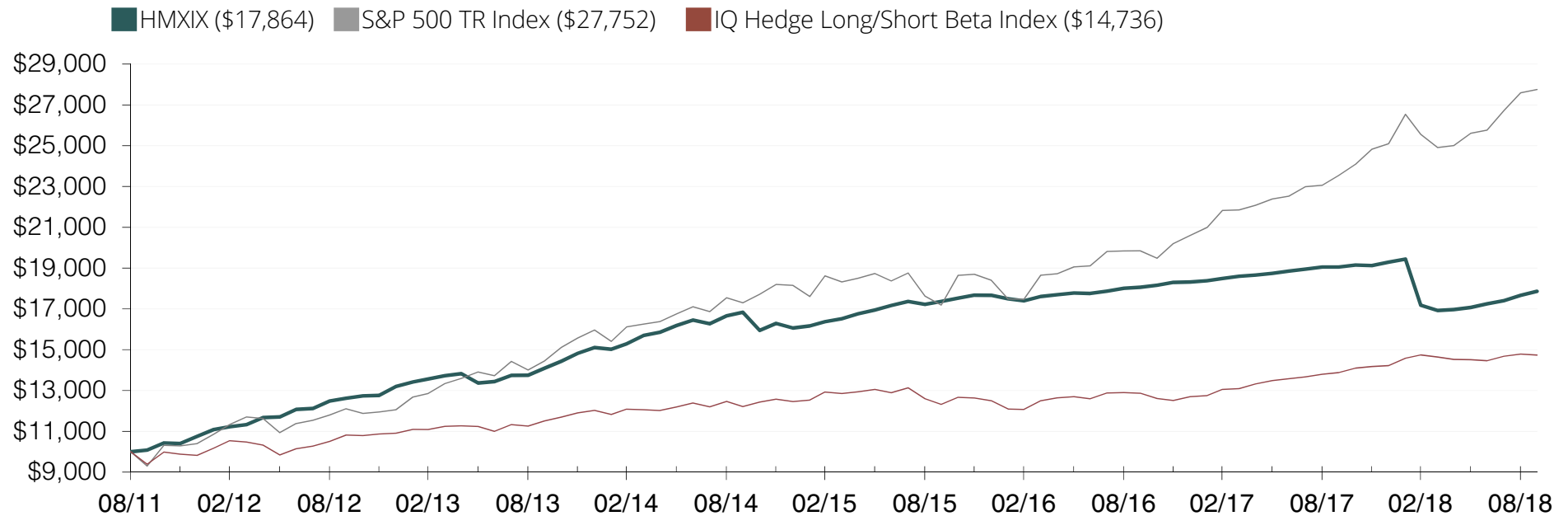
Positions are completely liquidated with a fund loss of 10%.

*Hedging is a strategy that attempts to reduce risk, however the effectiveness of a hedge can be difficult to predict due to the fluctuating and uncertain nature of investments which can be the cause of additional costs and risks to the fund. There is no assurance the fund will meet its investment objective.*

# FUND PERFORMANCE

The AlphaCentric Hedged Market Opportunity Fund has delivered equity-like returns with lower volatility\* since inception.

## HISTORICAL CUMULATIVE RETURNS SINCE FUND SINCE INCEPTION<sup>1</sup> (as of 09/30/2018)



\* HMXIX has a standard deviation of 6.74% compared to the S&P 500 TR Index with a standard deviation of 10.68% since inception.

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# MANAGER BACKGROUND

## Russell Kellites

### Education

- Columbia University BS, Computer Science, ***Cum Laude***, focus on Artificial Intelligence
- Columbia University MS, Computer Science, (matriculated) focus on Artificial Intelligence
- Columbia University MBA, major Finance and Accounting

### Work

- Goldman Sachs & Co, Associate
- Merrill Lynch & Co, Vice President
- -----
- Theta Capital Partners, Managing Director



# SUMMARY & HOW TO INVEST

## Three Reasons to Invest:

- 1 Seeks equity-like returns with lower volatility.
- 2 Quantitative approach targets disciplined performance.
- 3 Highly experienced manager.

## How to Invest:


Share Class	Ticker	Minimum Investment	Gross Expense	Net Expense*
Institutional	HMXIX	\$2,500	3.08%	2.61%
Class A	HMXAX	\$2,500	3.81%	3.35%
Class C	HMXCX	\$2,500	2.91%	2.47%

\*The Fund's advisor has contractually agreed to waive fees and/or reimburse expenses of the Fund to the extent necessary to limit operating expenses (excluding brokerage costs; underlying fund expenses; borrowing costs such as (a) interest and (b) dividends on securities sold short; taxes and, extraordinary expenses) at 2.24%, 2.99% and 1.99% for Class A shares, Class C shares and Class I shares, respectively, through July 31, 2019.

# ADDITIONAL INFORMATION

For more information, please do not hesitate to contact us or visit [www.AlphaCentricFunds.com](http://www.AlphaCentricFunds.com)

 **info@alphacentricfunds.com**

 **(844) 223 - 8637**

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c/o Gemini Funds

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Omaha, NE 68154-1150

# GLOSSARY

**Morningstar Category** assigned to this fund is the Large Blend Category.

**S&P 500 Index:** A market capitalization-weighted index that is used to represent the U.S. large-cap stock market.

**S&P GSCI Index:** A broad-based and production weighted index designed to represent the global commodity market beta.

**MSCI World Index:** Represents large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each.

**MSCI Emerging Markets Index:** Represents the bottom 2,000 stocks in the Russell 3000 Index and is the most widely quoted measure of the overall performance of U.S. small-cap to mid-cap company shares.

**NAREIT Index:** A comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets.

**HFR1 Hedge Fund Index:** A global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in US dollars and have a minimum of \$50 million under management or a 12-month track record of active performance.

**IQ Hedge Long/Short Beta Index:** Attempts to replicate the risk-adjusted return characteristics of the collective hedge funds using a long/short equity investment style.

**Barclays U.S. Aggregate Bond Index:** A market capitalization weighted index that tracks the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

**Sharpe Ratio:** A risk-adjusted measure of a fund's performance that indicates a fund's return per unit of risk, defining risk as volatility (standard deviation).

**Alpha:** A measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

**Beta:** A measure of a fund's sensitivity to market movements.

**Correlation:** A statistical measure of how two securities move in relation to each other.

**Maximum Drawdown:** A measure of the maximum loss from a peak to a trough of a portfolio or index, before a new peak is attained.