

AlphaCentric Robotics and Automation Fund

Q2 2020 Commentary

GNXAX | GNXCX | GNXIX

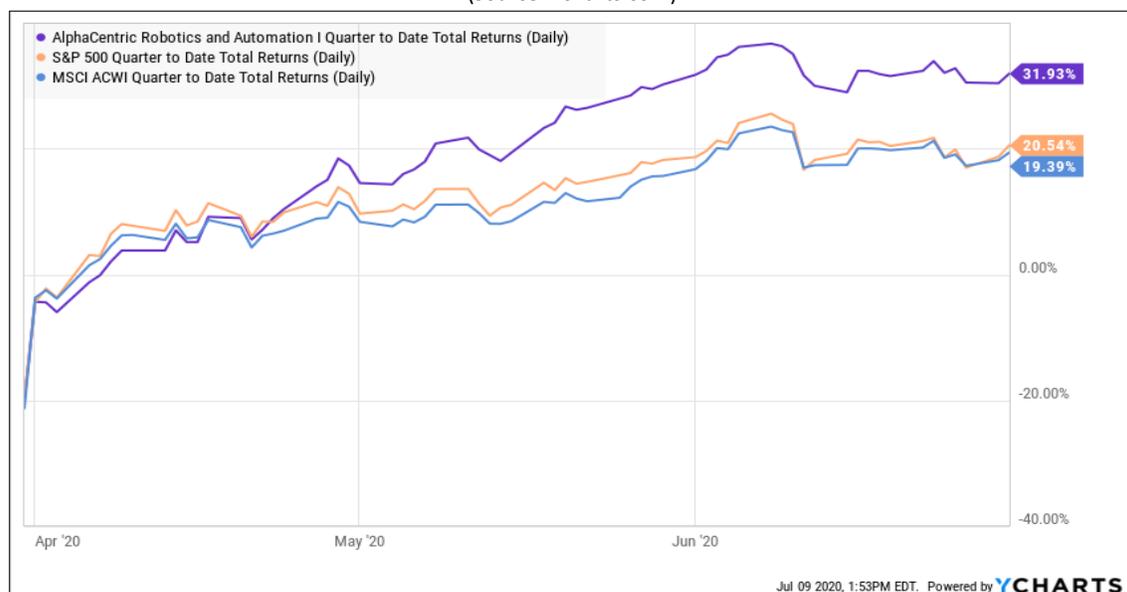
As we have written before, we believe that the growth in robotics for workplace automation has reached a tipping point toward wide-scale adoption. International Data Corp. (IDC) estimates that by 2022, worldwide spending on robotics will reach \$210.3 billion; a compound annual growth rate of 20.2%.¹ The COVID-19 pandemic and concomitant global economic recession and ongoing recovery process have illuminated the benefits of capital investment in robotics and automation solutions across virtually all industries. We believe that this realization may result in an acceleration in capital budgeting plans for automation by manufacturing and industrial, logistics, and food and agricultural companies. In addition, an acceleration in demand for cloud-based communications, entertainment, and edge computing solutions may accelerate the rollout and utilization of 5G wireless data networks. As such, demand for highly automated solutions should exceed GDP and average corporate profit growth rates for many years to come.

PERFORMANCE

The AlphaCentric Robotics and Automation Fund (the “Fund”) increased 31.93% for the three-month period ended June 30, 2020. This compared quite favorably to the S&P 500 Total Return index (the “Benchmark”), which increased 20.54% over the same period. Importantly, the 2nd quarter 2020 marked the best quarterly performance for the major US stock indexes in more than 20 years. For the YTD period ended June 30th, 2020, the Fund increased 5.69%, compared to a -3.09% decrease for the Benchmark.

Q2 2020 Total Return Chart

(Source: Ycharts.com)



Performance as of 6/30/20	QTD	YTD	1 YR	3 YR	Inception*
Class I	31.93	5.69	8.47	10.42	10.17
Class A	31.88	5.48	8.18	10.11	9.87
Class C	31.60	5.17	7.35	9.32	9.06
S&P 500 TR	20.54	-3.08	7.51	10.73	10.65
Class A w/ Sales Charge	24.27	-0.55	1.93	7.96	7.78

*Inception: 5/31/17

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective.

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. Total annual operating expenses are 2.42%, 3.18%, and 2.17% for Class A, C and I shares, respectively. 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.

MARKET OVERVIEW

Almost all asset categories posted a strong Q2 recovery from steep Q1 declines. Returns for most equity categories remained negative year-to-date, but US growth and technology stocks moved into positive territory. The rally in stock prices and decline in earnings drove global equity valuations back to near pre-pandemic levels. The rise in stock valuations was broad-based across regions, with those in the US and emerging markets finishing the quarter well-above their respective long-term historical means.

The COVID-19 virus took the world by surprise in February, bringing to an abrupt end, the longest running US economic expansion in history. Since the March lows, we have witnessed a truly remarkable bounce in economic activity, heavily supported by government transfer payments and central bank actions. Be that as it may, we are keeping a close eye on new developments in the spread of the virus, as well as the potential for an effective vaccine. Although it remains impossible to determine the exact impact that COVID-19 will have on the global economy going forward, a durable recovery appears to be underway, and we continue to monitor the situation for potential long-term structural changes.

Still, a few concerns come to mind. In the US alone, the number of people applying for first-time unemployment benefits in 2020 has approached 50 million.ⁱⁱ While the number of continuing claims has declined to just over 20 million in recent weeks, the fact remains that the current unemployment rate of 11.1% still exceeds the worst print of the 2008 great financial crisis (GFC).ⁱⁱⁱ 2Q GDP forecasts continue to hover in the vicinity of a 35% annualized decline, while the consensus of economists is looking for a decline of 5% for the full-year 2020, according to the Conference Board. That compares favorably to the worst GDP print during the GFC (as 2008 finished down 8.4%),^{iv} but in a highly leveraged economy like ours, it remains a major headwind to recovery.

Continued liquidity support from global central banks, as well as additional fiscal stimulus measures from world governments will likely be required for an unspecified time in order to fully repair the economic damage that has been done.

FUND OVERVIEW

The Fund's strong outperformance during the second quarter is partly attributable to few of our core positions, which have been standouts within the robotics and automation space. Understanding durable industry trends and how they affect the companies in our universe is our core competency. Applying this understanding through superior stock picking is how we aim to distinguish ourselves from the indexes. Here are just five key examples of this value proposition at work.

Bioxcel Therapeutics (BTAI) was up 137.2% in Q2 and has increased 262.8% YTD. It's a play on artificial intelligence. The company is focused on utilizing cutting-edge technology and innovative research to develop high value therapeutics. BTAI employs a unique AI platform, which has the potential to reduce therapeutic development costs and accelerate timelines, all while aiming to increase the odds of success. Their approach leverages existing approved drugs and/or clinically evaluated product candidates together with big data and proprietary machine learning algorithms to identify new therapeutic indices and develop first-in-class drug candidates to treat diseases with substantial unmet medical needs where there is a large market opportunity, such as immune-oncology and neuroscience disorders.^v

Cyberoptics (CYBE) saw an 88.3% increase during Q2 and is up 75.2% YTD. This is a play on automated optical inspection and measurement. CYBE is a leader in high-precision 3D scanning and wireless sensing technology solutions used in the manufacture of semiconductors and other precision applications. They offer a variety of platform solutions including AOI, SPI, FVI, CMM and Metrology that assure unparalleled high resolution, high accuracy, and high speed. Their technology is mission critical for their customers and represents the most efficient and effective solution in the industry.^{vi}

Infineon Technologies (IFX GR) experienced a 55.4% advance in Q2 and is up 4.1% YTD. IFX is a broad play on industrial robots. The company is primarily a semiconductor manufacturer of specialty chips and sensors used across a variety of parts and systems that go into the design and function of an industrial robot. IFX is the industry leader with the broadest product portfolio on the market. They are a one-stop shop for robot parts. No other company even comes close to the scope of components and solutions that they offer. While the parts that make up the hardware are essential, it is their advanced control algorithm that truly sets IFX apart from its competitors. Their end-to-end systems provide customers with a level of security and safety that is unparalleled in the industry.^{vii}

GEA Group (G1A GR) recovered 53.5% during Q2, but still remains down -2.5% YTD. This is primarily a play on the automation of the food processing industry. While GEA's product portfolio covers a broad array of industry verticals, none better than dairy farming serves to illustrate how their innovative technologies are mission critical in moving products from farm to table. Their DairyRotor external rotary milking parlor and DairyRobot milking system maximizes throughput and intelligently monitors every udder continuously in large herds. Their technology analyzes cell counts in order to detect subclinical mastitis infections resulting in faster treatment periods, reducing down time. A combination of advanced sensor and 3D camera technology allows an operator to seamlessly move an entire herd through the milking station in a continuous rotation. This is one of the many reasons why GEA remains an unmatched leader in the industry.^{viii}

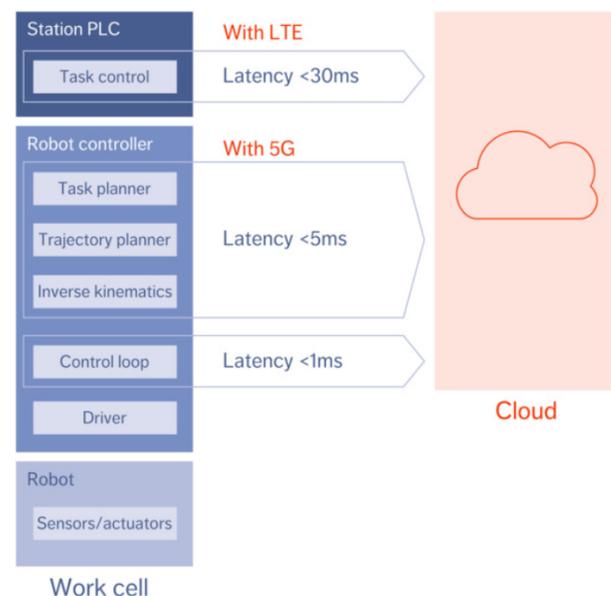
Finally, Synopsys (SNPS) climbed 51.4% during the June quarter, up 40.1% YTD. This is a play on ‘smart everything’. The company’s technology is at the heart of innovations that are changing the way people work and play. Self-driving cars. Machines that learn. Lightning-fast communications across billions of devices in the datasphere. These breakthroughs are ushering the era of smart everything. Powering this new era of digital innovation are high-performance chips and exponentially growing amounts of software content. SNPS is at the forefront of smart everything with the world’s most advanced technologies for chip design, verification, IP integration, and software security and quality testing. They make the notion of a ‘system-on-a-chip’ possible.^{ix}

Past performance does not guarantee future results and there is no assurance that the Fund will achieve its investment objective. Holdings are subject to change and should not be considered investment advice.

OUTLOOK

Looking ahead, perhaps the most exciting new development emerging within the robotics and automation ecosphere is the buildout and implementation of 5G wireless networks. As of June 2020, according to Bloomberg Intelligence and Ookla, more than 6,000 cities in 27 countries have limited commercial availability of this robust new service, with the greatest concentration in the US, China, and South Korea. The 5G footprint is expected to double over the next year.^x The implications of this for robotics and automation solutions providers is immense.

For starters, 5G enables service providers to guarantee low latency and high reliability for safety-critical applications. In addition, 5G delivers massive connectivity, supporting a much higher density of connected devices, so robots and process automation systems can scale out effectively. Finally, 5G delivers ‘edge computing’ capabilities by supporting flexible, distributed, cloud-centric networking.^{xi}



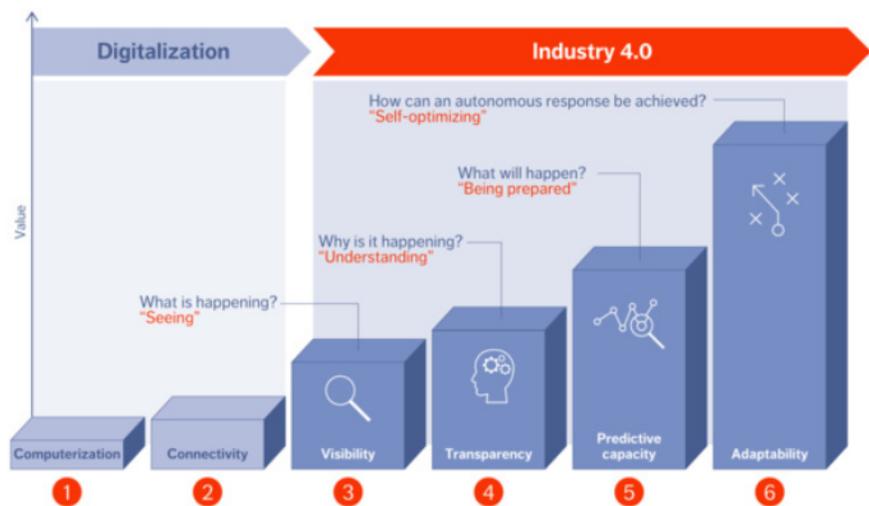
This will make it possible for the processing to be moved outside of the robots, making them less complex. Using the edge cloud, robots can now be controlled and re-programmed remotely to assist everywhere from hospitals to factories. Robots will thus develop greater autonomy as time-sensitive networking via 5G connects them to intelligence in the edge cloud. This will open up more opportunity for them to undertake hazardous and repetitive tasks. Sensors can gather data to create ‘digital twins’, used to optimize every process.^{xii}

5G wireless infrastructure will facilitate a revolution in artificial intelligence. Highly reliable, low-latency networks will allow service providers to enable robots on production lines to undertake multiple tasks with remote configuration of programmable logic controllers. In industrial processes, automation systems can be used to help with quality control, using vision processing and machine learning in the cloud. In

hospitals, collaborative robots can guide patients or deliver medicines, and be managed centrally as a fleet. 5G will facilitate 'Connectivity', the second stage in the development path that will allow industries to evolve to the point that they can achieve their full potential.^{xiii}

In a way, this development constitutes the dawn of a fourth industrial revolution (Industry 4.0). One of the most interesting aspects of the fourth industrial revolution is the emergence of human-robot cooperation. The present and future challenge is to develop robots that can support human workers in a meaningful way to perform manipulation and assembly tasks according to a production program. A robot that works close to a human worker must interact safely and be able to 'understand' and interpret direct user commands and support the worker in executing different actions.^{xiv}

Collaborative robotics is a novel paradigm of human-robot cooperation that is based on lightweight and flexible robots that are safe, smart, and easy to program, and are intended to operate in close symbiosis with human workers. Compared with the previous generation of robots, collaborative robots require sensory systems to detect and prevent collisions and impacts, as well as human-



robot interfaces to understand and interpret human intentions.^{xv} For these reasons, massive efforts in robotics and automation research are dedicated to the development of sensory skins and proximity sensors, and to the design of novel interfaces that enable different kinds of commands from the user to the robot.

Cooperation between humans and intelligent machines is a new reality that will have a profound effect on both industry and society in the years ahead. Already today, it is possible to leverage a combination of human wisdom and intuition together with the strong elaboration capabilities of artificial intelligence and machine learning to create solutions that provide a high level of industrial automation. The factory of the future will be realized through the digitization of the manufacturing process and plants, which will be enabled by 5G networks and all of their building blocks.^{xvi}

Finally, as we discussed at the outset, the COVID-19 pandemic has illuminated the strengths of those early adopters, who had the courage and foresight to invest heavily in robotics and automation solutions, and likewise exposed the weakness of those who did not. This realization has the potential to accelerate capital budgeting plans and the deployment of new automation solutions across a multiplicity of industrial verticals and perhaps unveil some previously untapped end-markets. In short, the future is now. And our portfolio is concentrated among companies that we have identified as having the greatest potential to capitalize upon these explosive industry dynamics.

Important Risk Information

Investing in the Fund carries certain risks. The Fund may invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives and the resulting high portfolio turnover 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 option strategies. Securities of robotics and automation companies, especially smaller, start-up companies tend to be more volatile securities than securities of companies that do not rely heavily on technology. Smaller sized companies may experience higher failure rates than larger companies and normally have a lower trading volume than larger companies. Rapid change to technologies that affect a company's products could have a material adverse effect on operating results. Robotics and automation companies may rely on a combination of patents, copyrights, trademarks and trade secret laws to establish and protect proprietary rights in their products and technologies. The fund is non-diversified and as a result, changes in the value of a single security may have a significant effect on the Fund's value. The Fund is subject to regulatory change and tax risks; changes to current rules could increase costs associated with an investment in the Fund. Investments in international markets present special risks including currency fluctuation, the potential for diplomatic and political instability, regulatory and liquidity risks, foreign taxations and differences in auditing and other financial standards. Emerging market securities tend to be more volatile and less liquid than securities traded in developed countries. Alternative investments may not be suitable for all investors and an investment in the Fund is suitable only for investors who can bear the risks associated with the Fund's shares and should be viewed as a long-term investment.

The MSCI ACWI TR Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets. The S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the U.S. There is no assurance that the Fund will achieve its investment objective. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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. The prospectus should be read carefully before investing. The AlphaCentric Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. AlphaCentric Advisors, LLC is not affiliated with Northern Lights Distributors, LLC.

4792-NLD-7/28/2020

ⁱ <https://www.businesswire.com/news/home/20181204005225/en/Worldwide-Spending-Robotics-Systems-Drones-Forecast-Total>

ⁱⁱ <https://www.forbes.com/sites/jackkelly/2020/07/09/nearly-50-million-americans-have-filed-for-unemployment-heres-whats-really-happening/#94224a027d34>

ⁱⁱⁱ <https://tradingeconomics.com/united-states/unemployment-rate>

^{iv} Ibid.

^v <https://www.bioxceltherapeutics.com/>

^{vi} <http://www.cyberoptics.com/>

^{vii} <https://www.infineon.com/>

^{viii} <https://www.gea.com/en/dairy-farming/index.jsp>

^{ix} <https://www.synopsys.com/>

^x <https://www.speedtest.net/ookla-5g-map>

^{xi} <https://www.nokia.com/networks/5g/use-cases/cloud-robotics/>

^{xii} Ibid.

^{xiii} Ibid.

^{xiv} <https://www.ericsson.com/en/reports-and-papers/ericsson-technology-review/articles/industrial-automation-enabled-by-robotics-machine-intelligence-and-5g>

^{xv} Ibid.

^{xvi} Ibid.