Clients & Friends –

In this commentary, we will provide a high-level performance update for Q2 2022.

As a reminder, the strategy underlying the Newfound Risk Managed U.S. Growth Fund (NFDIX) is designed with the thesis that equity market extremes are becoming *more frequent and more severe.* For lack of a better word, things will most likely remain "weird." To align with this thesis, NFDIX employs a barbell approach, marrying a ladder of increasingly convex positions seeking to out-perform in equity left tails with a ladder of increasingly convex positions that seeks to out-perform in the right.

At its core is a strategic equity position comprised of momentum and defensive style tilts (approximately 30% in both sleeves; 60% total). We complement the core equity position with a systematic trend-following strategy (approximately 30%) which has the flexibility to tilt from fully invested to fully divested into short-term U.S. Treasuries. We implement a ladder of out-of-the-money put and call options (approximately 2.5% each) in an effort to maximize defense in extreme down markets and participation in extreme up markets. Finally, we use the remaining capital (approximately 5%) as collateral for an active U.S. Treasury futures strategy, which seeks to provide a second, diversifying source of returns to the portfolio (varying between 0-to-100% notional exposure).

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Q2 2022 Performance Analysis

TL;DR: Both U.S. equity and U.S. Treasury beta were detractors from absolute returns. Structural overweight to equities were a significant detractor from relative returns while tactical signals to underweight bonds were contributors to relative returns. Defensive factor tilts were a significant contributor to relative returns while momentum factor tilts were a minor detractor. Trend signals to reduce equity exposure were a significant contributor to relative returns. Call options continued to act as an absolute drag on performance, offset partially by value accrued to put options.

NFDIX returned -15.15% in Q2 2022. The S&P 500 Total Return Index ("S&P 500") returned -16.10% and a 50/50 portfolio of S&P 500 and 10-Year U.S. Treasury futures portfolio levered up 1.5x ("75/75") returned -14.48%. Year-to-date, NFDIX has returned -25.53%, the S&P 500 has returned -19.96%, and a 75/75 portfolio has returned -20.98%.

Figure 1. Q2 2022 Contribution to Portfolio Return

	Total Return (%)	Average Weight (%)	Contribution to Return (bps)
Defensive Equity	-11.79	31.30	-369
Momentum Equity	-16.66	31.21	-520
Trend Equity	-11.72	29.62	-347
Put Options	77.84	1.76	137
Call Options	-224.49	0.98	-220
Treasury Futures	-3.23	52.63	-170
Cash (and Equivalents)	0.19	5.15	1

	152.65	-1488
Residual		*-27*
NFDIX		-1515

Source: Bloomberg.

As a quick technical aside, it should be noted that contribution analysis is fraught with imprecision, and hence there is a *residual contribution*[1] left over in the analysis. One example of a residual contribution is fund fees[2]. Another is cash flow in and out of the fund, which can make the fund appear to hold excess cash for the day (inflow) or levered (outflow). As such, contribution analysis should be considered directionally accurate rather than precisely correct.

In comparison to the expected long-term allocation of 75% S&P 500 and 75% 10-Year U.S. Treasury futures:

- The Fund held an average 92.13% equity allocation throughout the quarter, a 17.13 percentage point overweight. This created a -276bp drag on relative performance.
- The Fund held an average allocation of 52.63% to 10-Year U.S. Treasury futures, a 22.37 percentage point underweight. This created a 72bp benefit to relative returns.
- Defensive equities outperformed the S&P 500 by 432bp, creating a 135bp benefit to relative returns.
- Momentum equities under-performed the S&P 500 by 55bp, creating a -17bp drag on relative returns.
- The Trend sleeve outperformed the S&P 500 by 437bp, creating a 130bp benefit to relative returns.
- Call options continued to lose value as markets trended downwards, contributing -220bp to relative returns, offset by value accrued to put options which contributed 137bp.

Figure 2. Q2 2022 Attribution versus a 75/75 Portfolio

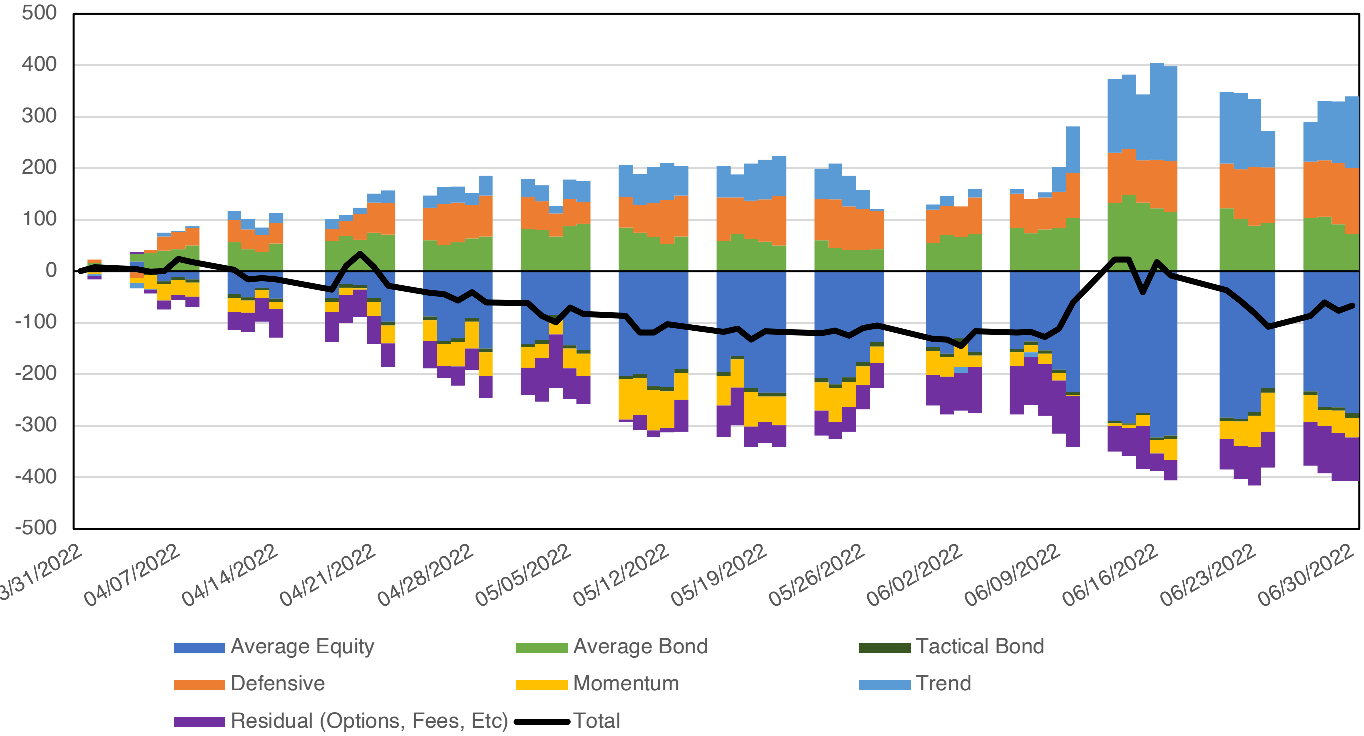
	Contribution to Return (bps)
75/75 Portfolio	-1,451
Average Equity Exposure	-276
Average Bond Exposure	72
Defensive Equity Factor	135
Momentum Equity Factor	-17
Trend Timing	130
Call Options	-220
Put Options	137

[1] Residual contribution refers to the difference in total return between the generated contribution analysis and the actual fund return.
[2] *The Fund's investment advisor has contractually agreed to reduce its fees and/or absorb expenses until at least July 31, 2023. Without these waivers, the Class I Shares total annual operating expenses would be 1.58% as of the August 2021 prospectus update. The fee waivers ensure that the net annual, operating expenses of the Class I Shares will not exceed 1.25% subject to possible recoupment from the fund in future years. Please review the Fund's prospectus for more information regarding the Fund's fees and expenses.*

	-1489
Residual	*-26*
NFDIX	-1515

In a volatile quarter, performance attribution at the destination only tells part of the story: we should also evaluate the path over which the attribution accrued. Figure 3 attempts to depict the sources of relative return generated by NFDIX versus a 75/75 portfolio.

Figure 3. Estimated Cumulative Excess Return Contribution (in Basis Points)



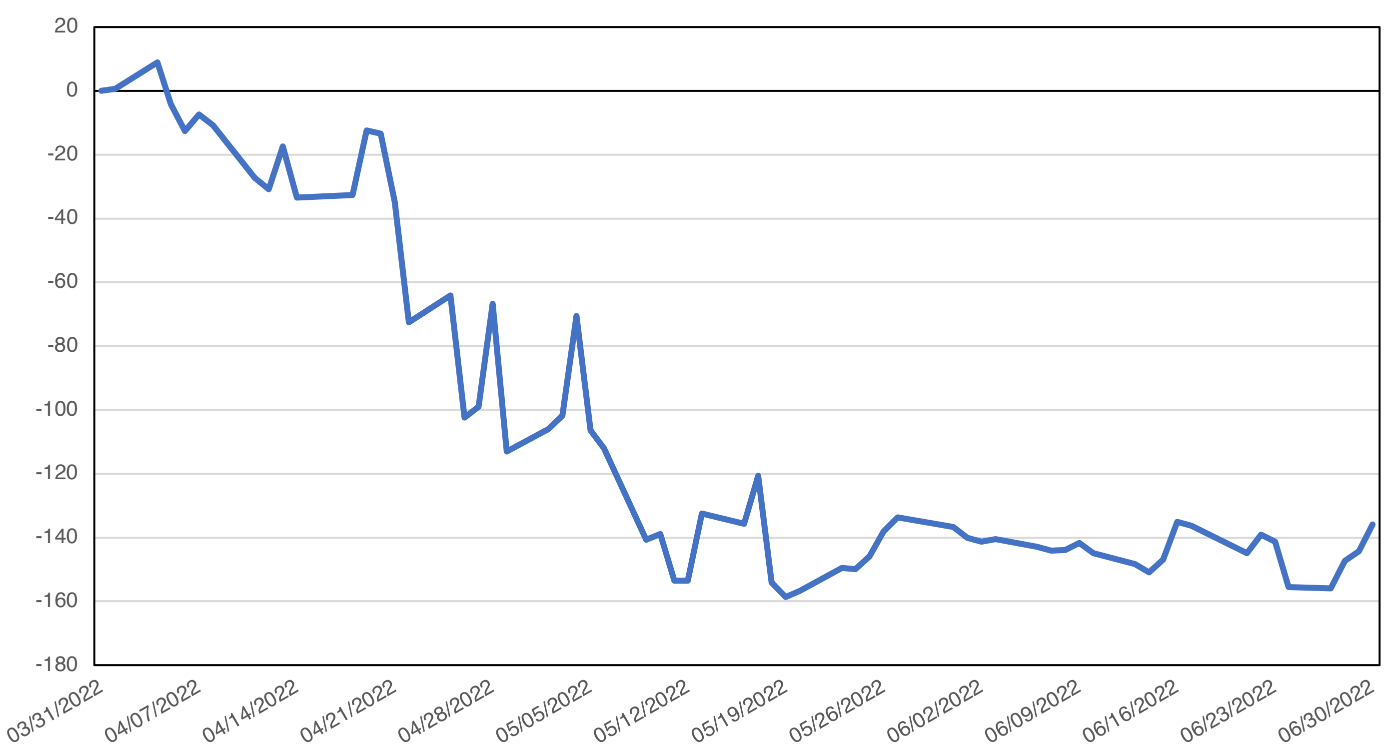
Source: Tiingo; Stevens Futures; Sharadar. Calculations by Newfound Research. "Average Equity" is a portfolio with constant exposure to the S&P 500 equal to the average weight held over the quarter by the portfolio. "Average Bond" is a portfolio with constant exposure to 10-year U.S. Treasury futures equal to the average weight held over the quarter by the portfolio. "Tactical Bond" is a portfolio that is either long or short 10-year U.S. Treasury futures, capturing the daily deviation in portfolio holdings above or below the average weight held over the quarter. "Defensive" is monthly-rebalanced portfolio that is 50% Strong Balance Sheet portfolio and 50% in an equal-weight portfolio comprised of the following ETFs: JQUA, LGLV, USMV, QUAL, FQAL, and FDLO. "Momentum" is an equally weighted portfolio, rebalanced monthly, comprised of the following ETFs: MTUM, FDMO, JMOM, and VFMO. The Strong Balance Sheets portfolio is constructed by: (1) selecting the top 500 U.S. securities by market cap; (2) removing Financials; (3) ranking stocks on Merton's distance-to-default; (5) filtering out stocks that have the highest momentum; (5) picking the top 100 and equally-weighting them. The portfolio is rebalanced monthly using six overlapping tranches. "Trend" is a portfolio holding a mixture of the S&P 500 and 1-3 Year U.S. Treasuries ("SHY") based upon proprietary trend signals. Returns of the aforementioned portfolios are hypothetical and are gross of all fees (including, but not limited to, advisor fees, manager fees, transaction costs, or taxes) except for underlying ETF expense ratios. The aforementioned portfolios are representative estimates and do not necessarily reflect the actual holdings of NFDIX. Past performance is not an indicator of future results. Strategy attribution is a best-efforts approximation.

We can clearly see that the average exposure to equities (92.13%) was a growing drag over the quarter versus a 75/75 portfolio, as U.S. equities struggled over the quarter. The average exposure to bonds (52.63%), on the other hand, was a growing benefit, as the portfolio was underweight relative to the 75/75 over a quarter in which bonds fell. In a quarter where equities struggled, it is nice to see that both defensive equity tilts and trend tilts added value, particularly during the mid-June sell-off. Momentum equity continued to struggle through the quarter, though to a significantly lesser degree than previous quarters. Finally, we can see that the residual component (which is primarily driven by option exposure, but also captures rebalancing impacts, fees, trading costs, and impact from flows in and out of the fund) was a slight drag.

Given the persistent down-trend in U.S. equities over the last 6 months, an average equity allocation of 92.13% may seem high. To be clear, this assumption is for attribution analysis only; the actual exposure to equities in the portfolio over the quarter was lower. In performing the attribution analysis, we assume all three equity sleeves (defensive, momentum, and trend) maintain full equity exposure. Any variation in that exposure, then, is attributed to the trend sleeve.

If we were to combine the excess returns from the average equity exposure and the trend tilts, a more intuitive picture emerges (Figure 4). From March 31st through mid-May, the portfolio was over-weight equities, and therefore under-performed a 75/75 portfolio as equities fell. In mid-May, the excess return line goes flat, as the portfolio moved to a neutral-weight position (approximately 75% equities).

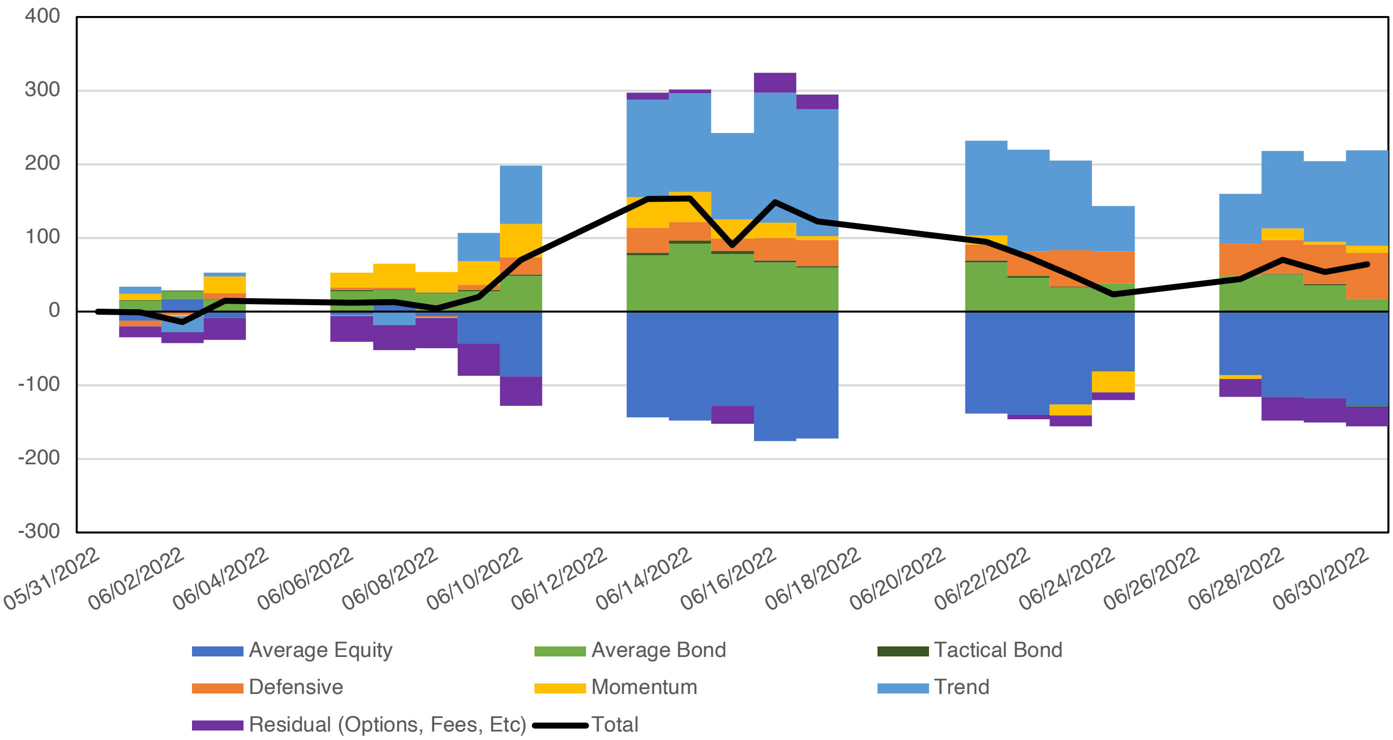
Figure 5. Estimated Cumulative Excess Return Contribution (in Basis Points) of Equity Exposure



Source: Tiingo; Stevens Futures; Sharadar. Calculations by Newfound Research. Returns of the aforementioned portfolios are hypothetical and are gross of all fees (including, but not limited to, advisor fees, manager fees, transaction costs, or taxes) except for underlying ETF expense ratios. Past performance is not an indicator of future results. Strategy attribution is a best-efforts approximation.

Given the violent nature of the June sell-off, we wanted to highlight that period specifically. Figure 5 performs the same attribution analysis from 5/31/2022 to 6/30/2022, capturing the rapid -11.8% waterfall sell-off in the S&P 500 from June 7th to June 13th. From June 8th through June 16th, the portfolio generated approximately 144bps of excess return versus the 75/75 portfolio. We estimate that 41bp of this was driven by the underweight to bonds, 32bp was from the defensive equity tilt, and 67bp was from options.

Figure 5. Estimated Cumulative Excess Return Contribution (in Basis Points) from 5/31/2022 to 6/30/2022



Source: Tiingo; Stevens Futures; Sharadar. Calculations by Newfound Research. "Average Equity" is a portfolio with constant exposure to the S&P 500 equal to the average weight held over the quarter by the portfolio. "Average Bond" is a portfolio with constant exposure to 10-year U.S. Treasury futures equal to the average weight held over the quarter by the portfolio. "Tactical Bond" is a portfolio that is either long or short 10-year U.S. Treasury futures, capturing the daily deviation in portfolio holdings above or below the average weight held over the quarter. "Defensive" is monthly-rebalanced portfolio that is 50% Strong Balance Sheet portfolio and 50% in an equal-weight portfolio comprised of the following ETFs: JQUA, LGLV, USMV, QUAL, FQAL, and FDLO. "Momentum" is an equally weighted portfolio, rebalanced monthly, comprised of the following ETFs: MTUM, FDMO, JMOM, and VFMO. The Strong Balance Sheets portfolio is constructed by: (1) selecting the top 500 U.S. securities by market cap; (2) removing Financials; (3) ranking stocks on Merton's distance-to-default; (5) filtering out stocks that have the highest momentum; (5) picking the top 100 and equally-weighting them. The portfolio is rebalanced monthly using six overlapping tranches. "Trend" is a portfolio holding a mixture of the S&P 500 and 1-3 Year U.S. Treasuries ("SHY") based upon proprietary trend signals. Returns of the aforementioned portfolios are hypothetical and are gross of all fees (including, but not limited to, advisor fees, manager fees, transaction costs, or taxes) except for underlying ETF expense ratios. The aforementioned portfolios are representative estimates and do not necessarily reflect the actual holdings of NFDIX. Past performance is not an indicator of future results. Strategy attribution is a best-efforts approximation.

One question we have frequently received is about how the options program has performed in this market environment. The short answer is, "it has been a net drag over the quarter, but additive during the most extreme parts of the sell-off." Figure 6 extracts the estimated absolute return contribution of option positions in the portfolio throughout Q2. We can see a few distinct regimes:

- From the beginning of the quarter through mid-April, call option positions lost value faster than put option positions accrued value as the S&P 500 sold off.
- From late April to mid-May, put options were in the driver's seat, and option positions accrued approximately 76bps while the S&P 500 fell -8.56% from May 4th through May 12th.
- From late May through early June, a decline in implied volatilities (e.g. VIX fell from approximately 35 on May 9th to just under 24 on June 8th) was a drag on option returns.
- As the S&P 500 fell from June 7th through 16th, as the S&P 500 fell -11.80%, put options were more than able to offset losses in call options and the complex gained 68bps.

Figure 6. Total Return of the S&P 500 (in Basis Points; Left Axis) and Estimated Cumulative Return Contribution of Options (in Basis Points; Right Axis)) in Q2

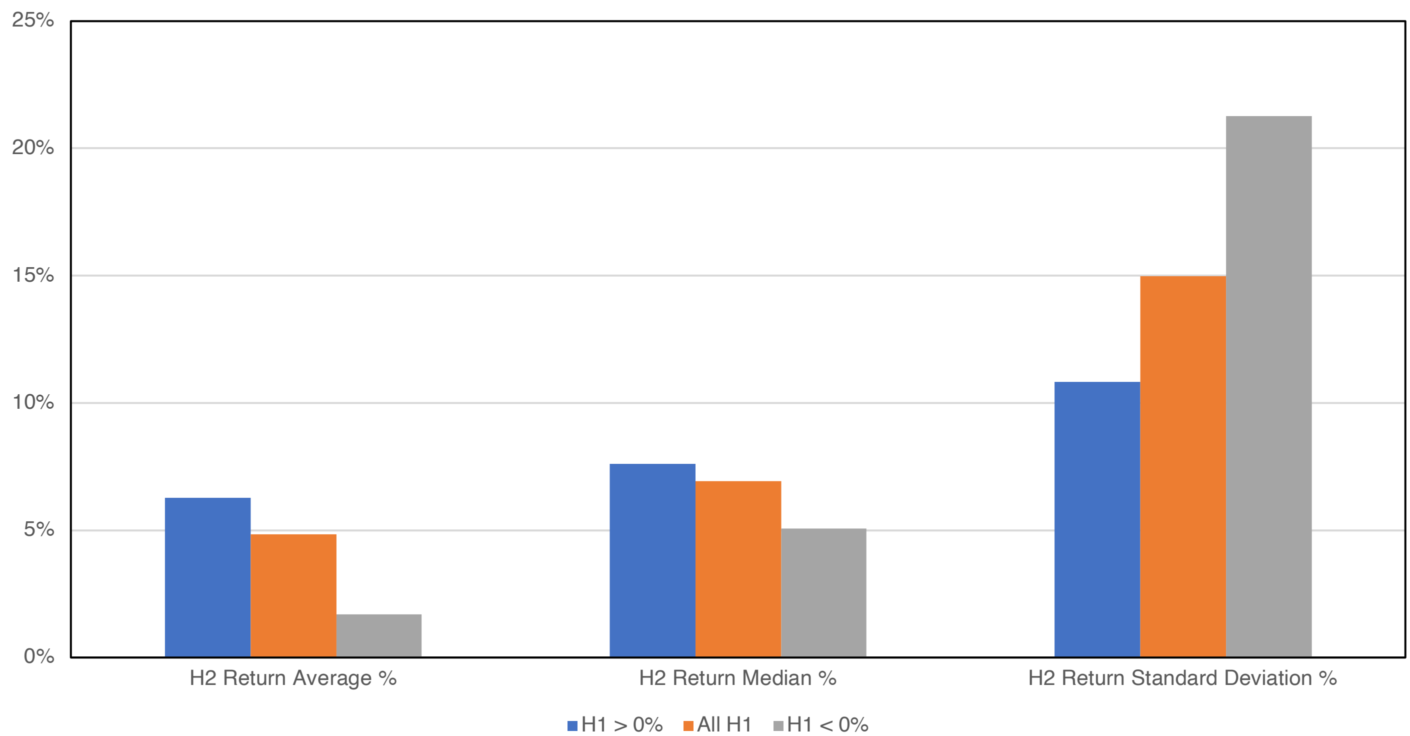
Source: Bloomberg; Tiingo. Calculations by Newfound Research. Strategy attribution is a best-efforts approximation.

In contrast to prior quarters, Q2 provided several opportunities for pro-active monetization of option positions. This included buying back short legs of call spreads as well as partially monetizing put positions via selling them outright or transforming them into put spreads.

While selling put contracts is an obvious monetization technique, transforming a put into a put spread is slightly more nuanced. Our approach was to identify the strike for the short leg such that we raised an equivalent amount of capital as having simply sold some of the puts outright. The trade generally maintained *more* protection through the strike of the long position, but reduced exposure to changes in implied volatility and expresses a short skewness trade (i.e. deeper out of the money puts are over-priced relative to less out of the money puts). We generally elected to make this trade-off when implied volatility seemed elevated and skewness seemed particularly rich from a historical and absolute perspective.

We also elected to continue to hold many of our call option positions beyond our usual five-month roll schedule. We made this decision as some of the options have now lost so much value, their potential collective downside impact on the portfolio is only a handful of basis points, such that should equity markets rally from here, they could recover significantly. While data is limited, historical evidence suggests that, on average, when the return in the first half of the year is negative, the return in the second half of the year is lower than if the return in the first half was positive. However, just as importantly, the standard deviation in returns is also substantially higher. By continuing to hold these deep out of the money call options, we may have the opportunity to monetize them at a later date.

Figure 7. U.S. Equity Market Return Statistics in the 2nd Half of the Year ("H2")



Source: Kenneth French Data Library. Calculations by Newfound Research. Original graph from Janus Henderson fund manager Aneet Chachra in a July 2022 note titled "Halftime." Data based upon U.S. equity market returns from 1926 through 2021.

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We appreciate the trust you place in having Newfound Research oversee your capital; helping to manage these assets is a responsibility we do not take lightly. We firmly believe that the process we have in place provides our Fund the best opportunity to meet its objective going forward, seeking to capture a significant portion of market growth while reducing the impact of severe and prolonged market declines. If you have any questions, please do not hesitate to reach out.

Sincerely,

Corey M. Hoffstein

Corey M. Hoffstein
Chief Investment Officer
Newfound Research

Fund Performance (Performance at NAV[1, 2, 3], performance as of June 30, 2022)						
	3 Months	6 Months	1 Year	3 Year	5 Year	Inception
NFDIX NAV	-15.57%	-25.53%	-17.22%	-0.50%	1.67%	1.75%
S&P 500	-16.10%	-19.96%	-10.62%	10.60%	11.31%	10.69%
50/50 S&P 500 / 1-3 Year U.S. Treasuries	-8.48%	-11.68%	-6.78%	5.74%	6.38%	5.97%

Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. For performance data current to the most recent month-end, please call toll-free 1-855-394-9777 or visit our website, www.thinknewfoundfunds.com.

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Investors should carefully consider the investment objectives, risks, charges and expenses of the Newfound Risk Managed U.S. Growth Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-855-394-9777. The prospectus should be read carefully before investing.

The Newfound Risk Managed U.S. Growth Fund is distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. Newfound Research LLC is not affiliated with Northern Lights Distributors, LLC.

1) *Performance at net asset value ("NAV") does not include the effect of sales charges.*

2) *The S&P 500 Index is widely regarded as the best single gauge of large cap U.S. equities. The index includes 500 leading companies listed in the United States and captures approximately 80% of available market capitalization. The 50/50 S&P 500 / Barclays US 1-3 Year Treasury Bond benchmark consists of a hypothetical portfolio that is 50% allocated to the S&P 500 Total Return Index and 50% allocated to the Barclays US 1-3 Year Treasury Bond index, rebalanced monthly.*

3) *Performance results include the effect of expense reduction arrangements for some or all of the periods shown. If those arrangements had not been in place, the performance results for those periods would have been lower.*

Risk Factors

There is no assurance that any Fund will achieve its investment objectives.

Mutual Funds involve risk including the possible loss of principal. ETFs are subject to specific risks, depending on the nature of the underlying strategy of the fund. These risks could include liquidity risk, sector risk, as well as risks associated with fixed income securities, real estate investments, and commodities, to name a few. Typically, a rise in interest rates causes *a decline in the value of fixed income securities. A higher Fund turnover will result in higher transactional and brokerage costs.*

Like all quantitative analysis, the adviser's investment model carries a risk that the mathematical model used might be based on one or more incorrect assumptions. No assurance can be given that the fund will be successful under all or any market conditions. Overall equity and fixed income securities market risks affect the value of the Fund. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets. The earnings prospects of small and medium sized companies are more volatile than larger companies and may experience higher failure rates than larger companies.

Options Risk: There are risks associated with the sale and purchase of call and put options. As the seller (writer) of a put option, the Fund will tend to lose money if the value of the reference index or security falls below the strike price. As the seller (writer) of a call option, the Fund will tend to lose money if the value of the reference index or security rises above the strike price. The Fund may lose the entire put option premium paid if the reference index or underlying security does not decrease in value. The Fund may lose the entire call option premium paid if the reference index or underlying security does not increase in value.

Click HERE for the current NFDIX prospectus.

Definitions

Beta: *Beta is a measure of a security's or portfolio's volatility relative to the market as a whole. A security or portfolio whose beta is greater than one has historically experienced a greater change in price than overall market prices; while, a security or portfolio with a beta of less than one has historically experienced a price change which is less than the price changes realized by the market as a whole.*

Basis Points (BPS, bps): *Basis points are used to refer to an increment of 0.01%, or 1/100th of 1%. For example, an investment that has increased in value by 0.50% would be said to have "increased by 50 basis points."*

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