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Investor Update Q4 2023: Rational Dynamic Brands Fund (HSUAX | HSUCX | HSUTX)

2023: Business Fundamentals Mattered Again. Brands Mattered Again.

Current Portfolio Holdings, Analytics, Historical Data: Global Brands Portfolio Page

Dynamic Brands Investors:
Happy new year! 2023 was a much more pleasant year and one our team expected. We cannot predict, no one can, but our experience navigating markets for 30 years taught us to expect better outcomes when willing to buy at highly attractive prices. 2022 was not a pleasant year for investors but we could not buy enough of our favorite global brands when the market put them on mega sale. That's what you pay us for, to make the difficult decisions in very important periods of time.

The Dynamic Brands Fund return for 2023 was +42.50%, versus the S&P 500 return of +26.2%. The strong gains in absolute and relative terms were generated primarily due to these three factors: 1) the willingness to obtain attractive purchase prices in 2022, 2) a dedication to the quality style factor across primarily Consumer Discretionary, Technology, and Communication Services sectors, and 3) our willingness to embrace volatility when it arrives and trade around our core positions or to take decisive action when we see a short-term tactical trading opportunity. In a market driven by CTA's, algo's, and one-day-to-expiration (ODTE) options trading, investors must get comfortable with periodic bouts of volatility. Volatility is the friend of the long-term investor; these short-term periods offer wonderful opportunities to generate attractive returns.

What worked in 2023?

1) Mega-cap brands. Core holdings like Microsoft gained +58%, Amazon +80%, Meta +194%, Google +58%, Apple +49%, Lilly +60%, Lululemon +59%, and Costco +49%. These numbers sound incredible, and they are, but when one widens the lens a bit and looks at the 2 & 3 year returns of many of these great brands and the market overall, you'll realize how much opportunity there still is across markets as we enter 2024. Mean reversion is a wonderful concept every investor should embrace. Thesis: If stocks tend to compound at an 8-10% per year rate over long periods of time. It's logical to assume the best companies across the most important industries should compound higher than the market and closer to 13%+ per year over time. Where the most relevant and leading brands are concerned, we have a significant amount of data to back up this thesis. While markets were generally strong in 2023, the two-year return for the S&P 500 is a sub-par +3.26% or +1.62% annualized. Amazon, our largest and favorite holding has annualized at -4.55% for 2 years, and -2.3% over 3 years. For perspective, from the ipo in mid 1997 to 12/31/2019 just before the pandemic began, Amazon stock annualized at +31%. We can say with a high degree of confidence, Amazon has more growth levers to pull than ever before and the return to strong free cash flow and high levels of net income has just begun. Amazon pulled forward many years of capex spending to keep up with demand over the last few years, and now they will begin to reap the rewards. There are many other examples like Amazon in our portfolio today. So many great brands are better positioned, cheaper, and more efficient than they have ever been and their stock prices have yet to fully reflect this new reality. We are excited for the future of leading brands as consumers & businesses get back to normal.

2) Brands that crossed into profitability for the first time. Leading sports betting brand, Draftkings had a phenomenal year +209%. The leader in ride sharing, Uber +149% as free cash flow

sustainability was reached, and the stock was added to the S&P 500. Latam e-commerce and fintech leader, Mercado Libre turned in a great year +85%.

3) Our Alternative Asset Manager (private markets) basket also returned to its winning ways. Blackstone was +82%, KKR +80%, and Apollo Global +49%. There is significant demand from HNW investors across private market assets. These brands stand to benefit greatly. Importantly, if your clients opt for giving up a little liquidity to gain access to things like Private Equity, Private Credit, Infrastructure, Differentiated Real Estate, etc., these brands win. If clients do not feel comfortable carving out some liquidity for private markets, they can benefit from the secular growth theme by owning the stocks as we do in the fund. Fun fact: most top-tier alternative asset managers have generated exceptional returns for clients over time. Giving up some liquidity has paid handsomely. Logic would tell us; the stocks of these great brands should also be strong performers if their business was strong. Case in point: Since the ipo in July 2007, BX stock has annualized at +14.5%, very similar to its Private Equity returns. And this included the dreadful 2008-2009 period as well as the poor returns of 2022. KKR stock has annualized at 21% since its public debut in July 2010. Apollo Global has annualized at +22% since the ipo in April 2011. The stocks can be volatile at times, but these brands are dominating the industry. They also have a meaningful step-up in earnings coming as they deploy over $300 billion in dry powder over the next few years and increase realizations. KKR & APO are still quite cheap, have a decent shot at being added to the S&P 500 in 2024 (strong stock catalyst), and both are on their way to meet Blackstone at >$1 trillion in assets. The large and recurring fees at this level of scale are worthy of a higher multiple. We fully expect the stocks to reflect this reality over time.

Current Views on 2024:

- We expect interest rates and inflation data to be rangebound and volatile. The easy part of containing inflation is now behind us, we suspect the data and the responses to the data to be more volatile throughout 2024. That means you can expect us to trade around core positions when short-term volatility arrives.
- 2–3-year laggards return to their former glory as the normalization process continues. Currently, about 55% of the portfolio could be classified in this category.
- We expect rolling corrections across sectors and industries to continue. This should also continue to offer opportunities for more active investors like us. The fund has a very high tracking error (looks different than the S&P 500) by design. This makes it a great complement to passive investments.
- Geopolitics & U.S. political antics could continue to spark short periods of volatility.
- The quality style factor that includes strong free cash flow, stable & predictable earnings, and solid balance sheets should continue to perform and be an overweight in the portfolio.
- A broadening of the returns should happen as more stocks participate, particularly in 2H.
- The economy could slow further into Q2 as the effects of Fed tightening continue to affect secondary businesses and those in need of refinancing. This would allow us to get more exposure to industries & leading brands we admire.
- The consumer will likely stay stingy about spending. Trade down activity should continue for 2/3 of the consumer base. Wealthier consumers will continue to be disciplined about spending. Brand relevance, brand love, and high brand loyalty is where we see the best opportunities.
- Consumer sentiment should improve as the wealth effect and job security keep them engaged in their favored spending categories. Wage gains are strong, which feeds into better

discretionary income, which feeds into solid consumer spending, which drives 70% of total GDP. Experiences, travel, e-commerce, discount shopping, and wellness are key areas of focus for the team.

Non-Consensus View Using Data Over Opinions:

We have sufficient data that FOMO was in-play late in 2023 which helped drive the market up after a slight pullback into late October. We would consider these FOMO flows to be transitory and likely non-committed capital. In the week ending January 3, 2024, the data confirmed this view as investors moved $123 billion into money market funds, the largest amount ever to start a new year (BofA Research). Money markets in the U.S. now have a record $6 trillion and it's earning less than it used to. Globally, there's now over $8 trillion in money markets. Some of this money will eventually de-anchor from fear allocations and shift into more risky assets like bonds and stocks. Portfolios that have been positioned overly defensively will also need to be right sized. In the end, there's plenty of fuel that could come back to equities, particularly given the likelihood that the economy will continue to stay out of recession and recover from Fed manipulation.

There's a significant number of opinions and predictions based on the direction of Fed Funds and inflation over the next year or two. We try not to be in the predicting game and focus on business fundamentals and consumer spending trends where we feel like we have a big edge over peers. We did, however, have some fun late in the year doing a research project to identify how the S&P 500 tended to perform in periods like the most likely Fed Funds and inflation set up today. Our base case for 2024 and possibly 2025 is Fed Funds to anchor around 4-5% with inflation in the 2-4% range, slightly higher than the Fed's 2% stated goal. As it turns out, looking back, the S&P 500 has been in these ranges 11 of the last 53 years: 2023, 2007, 2006, 1999, 1997, 1996, 1995, 1994, 1991, 1972, and 1971. Averaging these years shows an S&P 500 return of +20.6% with no down calendar years. Most sectors performed well in these years but Tech, Consumer Discretionary, and Healthcare were the top performers. While we certainly won't anchor to the 20% return historical lookback, the most likely outcome for the cost of capital and inflation seems to be much more positive than conventional wisdom expects. Remember, the Fed has been manipulating the economy down and it cannot or will not do that forever. At some point, the economy will fully recover, consumer sentiment will recover, and stocks tend to perform well in this type of environment. The equity market returns also tend to be much more broad-based in these scenarios.

The Brands Portfolio

In aggregate, this continues to be a very high-quality portfolio with attractive sales and earnings growth projections and one that is filled with free cash flow generators that have strong histories of compounding those investments at a highly attractive rate. The portfolio of brands has strong pricing power, high brand love, and generates strong free cash flows, which can be used for buybacks, dividend payments, and future growth initiatives. As owners of this portfolio ourselves, we sleep very well at night no matter what the macro market brings.

Should we see early weakness in 2024 given the current overbought readings we see, you can assume we will take advantage of weakness to build bigger positions in our favorite brands. We urge you to do the same with your favorite funds and ETF's. We know with certainty, "purchase price matters," and the best prices happen when markets go on sale. Let us all embrace the volatility that comes so our long-term retirements get more secure.

We thank you for your loyalty to the Rational Dynamic Brands Fund and for appreciating the value of investing in the $50+ trillion global consumption theme and through the brands that make a

difference in all our lives. Investing in the brands that build innovative and necessity-based products and services is a timeless approach to long-term investing.

Reminder: the holdings and allocation weights will change over time according to the opportunities we see in the marketplace. Fund holdings are subject to change and should not be considered investment advice.
Sincerely,

The Accuvest Dynamic Brands Team: Eric Clark, Dave Garff, James Calhoun

The maximum sales charge for Class "A" Shares is 4.75%. In the case of investments of $1 million or more (where you do not pay an initial sales charge), a 1.00% contingent deferred sales charge (CDSC) may be assessed on shares redeemed within two years of purchase. The gross expense ratios were 1.75%, 2.69%, and 1.46% for the Class A, C, and I share, respectively. 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 Fund's prospectus please call 800-253-0412 or visit www.RationalMF.com.

There is no assurance that the Fund will achieve its investment objective.

As of December 31, 2023, the Fund's top 10 holdings were:

Amazon	14.5%
Live Nation	6.22%
Lululemon	4.66%
Costco	4.55%
KKR & Co	4.55%
Microsoft	4.51%
Apollo Global	4.35%

Visa	4.31%
MercadoLibre	4.17%
L’Oreal S.A.	4.14%

Important Risk Considerations:

Investing in the Fund carries certain risks. The value of the Fund may decrease in response to the activities and financial prospects of an individual security in the Fund's portfolio. These factors may affect the value of your investment. 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. Risks of foreign investing are generally intensified for investment in emerging markets. Emerging market securities tend to be more volatile and less liquid than securities traded in developed countries.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Rational Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling (800) 253-0412 or at www.RationalMF.com. The prospectus should be read carefully before investing. The Rational Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Rational Advisors, Inc. is not affiliated with Northern Lights Distributors, LLC. 4045-NLD-1/11/2021