LoCorr FUNDS

The Role of Alternatives

Many investors seek alternatives for diversification purposes – to have something in the portfolio that moves independently of stocks and bonds. That need is even more important today, as the performance of stocks and bonds (the traditional diversifier within portfolios) both seem inextricably tied to the direction of interest rates.

As shown in the chart below, while the portfolio with high-correlating alternatives did perform slightly better – 33 basis points annualized over 15 years – the low-correlating portfolio performed better on every other risk metric, dampening volatility and drawdown.

The Difference High- and Low-Correlating Strategies Can Make Within a Portfolio

May 1, 2007 - December 31, 2021

	Return	Standard Deviation	Sharpe Ratio	Max Drawdown	Worst Month	Worst Quarter
High-Correlating Alts - 60/20/20	7.94%	10.9	0.69	-38.6%	-13.0%	-15.8%
Low-Correlating Alts - 60/20/20	7.61%	**9.4**	**0.75**	**-31.0%**	**-8.2%**	**-11.4%**
S&P 500 Index	10.54%	15.5	0.68	-51.0%	-16.8%	-21.9%

High-Correlating Alts shows a hypothetical asset allocation of 60% stocks, represented by S&P 500 Index, 20% bonds, represented by Bloomberg US Aggregate Bond Index, and 20% highly correlated alternatives as measured by the U.S. Fund Options Trading Index. The Low-Correlating Alts shows a hypothetical portfolio of 60% stocks, represented by S&P 500 Index, 20% bonds, represented by Bloomberg US Aggregate Bond Index, and 20% low-correlating alternatives as measured by the U.S. Fund Systematic Trend Index. **Past performance does not guarantee future results.**

Key Takeaways

- Low-correlating strategies seek to create a smoother ride and a more consistent outcome for investors.
- We believe correlation should be central to the decision-making process.
- Less volatility and lower drawdowns may prevent irrational decision making, such as abandoning an asset class at the bottom of a pullback and missing its rebound.

S&P 500 Index is a capitalization weighted unmanaged benchmark index that includes the stocks of 500 large capitalization companies in major industries. This total return index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given period. **Bloomberg US Aggregate Bond Index** is a broad-based bond index comprised of government, corporate, mortgage and asset-back issues rated investment grade or higher that have at least one year to maturity. This index includes net dividends. **US Fund Options Trading Index** The options-based category was split into two new categories: Derivative income (in the nontraditional equity U.S. category group) and options-trading (staying in the alternative U.S. category group). Strategies that largely rely on options contracts to generate incremental income on top of traditional equity market return drivers are classified in the new derivative income category, which is included in the nontraditional equity U.S. category group, while less market-sensitive, relative-value-oriented strategies are classified as options-trading, an alternative category. **Morningstar Systematic Trend Category** is an average monthly return of all funds in the Morningstar Systematic Trend Category. These funds typically take long and short positions in futures options, swaps, and foreign exchange contracts, both listed and over-the-counter, based on market trends or momentum. A majority of these funds follow trend-following, price-momentum strategies. **Standard Deviation** - The statistical measurement of dispersion about an average, which depicts how widely a portfolio's returns varied over a certain period of time. When a portfolio has a high standard deviation, the predicted range of performance is wide, implying greater volatility. **Sharpe Ratio** - measures the amount by which a set of values differs from the arithmetical mean, equal to the square root of the mean of the differences' squares. **Drawdown** refers to how much an investment or trading account is down from the peak before it recovers back to the peak. Drawdowns are typically quoted as a percentage, but dollar terms may also be used if applicable for a specific trader. Drawdowns are a measure of downside volatility. Basis Points (bps) - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. **Correlation** measures how much the returns of two investments move together over time. **Basis Points** (bps) - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting www.LoCorrFunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Non-diversified investments may concentrate assets in fewer individual holdings than diversified investments. Therefore, the investments are more exposed to individual stock volatility than diversified funds. The Funds invest in foreign investments and foreign currencies which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. The Funds may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Investing in commodities may subject the Funds to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. The Funds may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks, and, depending upon the characteristics of a particular derivative, suddenly can become illiquid. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed, Mortgage-Backed, and Collateralized Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in small- and medium-capitalization companies involve additional risks such as limited liquidity and greater volatility. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. ETF investments are subject to investment advisory and other expenses, which will be indirectly paid by the Funds. As a result, the cost of investing in the Funds will be higher than the cost of investing directly in ETFs and may be higher than other mutual funds that invest directly in stocks and bonds. ETFs are subject to specific risks, depending on the nature of the ETF. A Fund's real estate portfolio may be significantly impacted by the performance of the real estate market generally, and the Fund may be exposed to greater risk and experience higher volatility than would a more economically diversified portfolio. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural, or technological developments. Investments in Limited Partnerships (including master limited partnerships) involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the Limited Partnership, risks related to potential conflicts of interest between the Limited Partnership and the Limited Partnership's general partner, cash flow risks, tax risk, dilution risks and risks related to the general partner's limited call right. Underlying Funds are subject to management and other expenses, which will be indirectly paid by the Fund. Investments in Real Estate Investment Trusts (REITs) involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. Past performance is not a guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.