LoCORR™ FUNDS

Correlation: What to Watch For

When investors or advisors look at alternative investment strategies, **correlation** is not always the first thing they evaluate. But for those seeking diversification, we believe it should be central to the decision making process. The guidelines below can help when allocating to alternatives:

Understand correlations among your core holdings.

Correlations range on a scale from 1 (perfectly correlated) to -1 (inversely correlated). If the primary objective is diversification, an optimal correlation might range between -0.5 to 0.5. Anything below -0.5 has high inverse correlation. And given the general, but not constant, upward trajectory of equities, a strategy or basket of alternatives with inverse correlation to stocks may be a semi-constant drag on performance. On the other hand, anything above 0.5 could move too closely in tandem with equities, negating any diversification benefits. The objective of diversification is to find strategies that move **independently** of equities, but not inversely.

Look far back.

When assessing strategies for diversification purposes, look at correlation over the lifetime of the strategy, and look specifically at its correlation during periods when stocks were down.

Be clear on why you own a particular strategy.

If you are seeking diversification within alternatives, it's not enough for every strategy to have a low correlation to stocks. What is their correlation to each other? And what is the value each new strategy brings to the portfolio? For example, one strategy might provide inflation protection and real return, another market neutrality, while another strategy may provide equity risk diversification. There is no single, 'silver bullet' strategy that meets all portfolio diversification needs. Instead, different strategies can be combined in the same "sleeve" or "bucket" to potentially provide better diversification from stocks and bonds and address different market risks.

Analyze other metrics beyond correlation.

Sharpe ratio shows return per unit of risk and is a good gauge of how the strategy achieved its performance. Ideally, the addition of low-correlating strategies may bring the Sharpe ratio of the aggregate portfolio higher. Meanwhile, maximum drawdown can show when the strategy suffered, and by how much. One can also see whether those drawdowns are happening at times different from equity market downturns.

By making correlation an important aspect of evaluating alternative strategies, investors can construct an allocation to a sleeve of low-correlating strategies within the portfolio that are truly diversified from stocks and bonds.

Diversification does not assure a profit or protect against loss in a declining market. Correlation measures how much the returns of two investments move together over time. 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.

The Fund's 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. The Funds are non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Funds are more exposed to individual stock volatility than a diversified fund. 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. Investing in derivative securities 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. Derivative contracts ordinarily have leverage inherent in their terms which can magnify the Fund's potential for gains or losses through increased long and short position exposure. The Fund may access derivatives via a swap agreement. A risk of a swap agreement is the risk that the counterparty to the agreement will default on its obligation to pay the Fund. 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. The LoCorr Dynamic Equity Fund may invest in small- and medium-capitalization companies which involve additional risks such as limited liquidity and greater volatility. The Fund may also invest in lower-rated and non-rated securities which 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 Fund. As a result, the cost of investing in the Fund 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. The Spectrum Income Fund's portfolio will 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, 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.

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