Is it too late to lower the risk in my portfolio?

February 2023

Can I still adjust my allocation to include alternatives in my portfolio or have I missed the boat? We've been asked this question a lot lately. Investors and advisors who haven't yet made an allocation to low-correlating strategies, which have the potential to reduce risk in a portfolio, are questioning if they have waited too long. If you accept the broad concepts of diversification, the answer should be simple.

It's never too late.

Understanding correlation is crucial because in order to strengthen portfolio diversification across various market environments, investors should think about allocating to assets which move independently of stocks and bonds. This need is particularly pressing today since historically, when inflation and interest rate concerns have arisen, equities and bonds (the traditional diversifier inside portfolios) have moved in lockstep.

Key Takeaways

- Understanding a fund's correlation to other assets should be central to an investor's decision-making process.
- Low-correlating investments offer diversification beyond traditional investments, such as stocks and bonds—helping modern portfolios seek outperformance in both up and down markets.
- Having a permanent allocation to low-correlating strategies, just as you do to traditional asset classes, can help to avoid unforeseen market uncertainty.

Understanding a fund's correlation should be central to an investor's decision-making process. Correlations range on a scale from 1 (perfectly correlated) to -1 (perfectly *inversely* correlated). If your primary objective is diversification, an optimal correlation might range between roughly -0.5 to 0.5.

Anything below -0.5 has high inverse correlation, which could create a semi-constant drag on performance. On the other hand, for diversification purposes, anything above 0.5 could move too closely in tandem with the other portfolio asset classes.

The Potential Risk Reduction Benefits of Low-Correlating Strategies

By including an allocation behaving differently than stocks and bonds, you can potentially reduce the overall risk in your portfolio. For instance, from June 1, 2013 through December 31, 2022, a standalone sleeve of low-correlating strategies, with a 0.5 correlation to the S&P 500 Index, experienced a maximum drawdown of -5.00%, while the 60/40 portfolio experienced a -20.10% max drawdown over the same time period.

If you now take 20% from your traditional bond allocation and allocate it instead to that sleeve of low-correlating strategies—creating a portfolio with 60% stocks / 20% bonds / 20% low-correlating strategies—then the maximum drawdown of that portfolio improved by over 300 basis points versus a traditional 60/40 portfolio.

60/40 Portfolio versus Low-Correlating Sleeve - June 1, 2013 - December 31, 2022

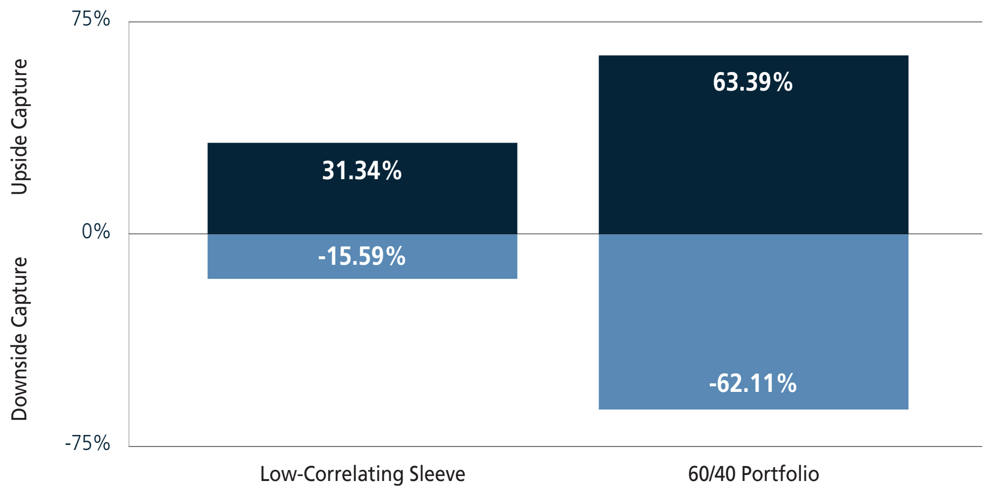
	Max Drawdown
Low-Correlating Sleeve	-5.00%
60/40 Portfolio	-20.10%
60/20/20 Portfolio	-16.89%
S&P 500 Index	-23.87%
Bloomberg U.S. Aggregate Bond Index	-17.18%

Source: Morningstar. Calculated using monthly data. The 60/40 Portfolio represents a 60% allocation to the S&P 500 Index and a 40% allocation to the Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The Low-Correlating Sleeve is equally weighted between LoCorr Macro Strategies Fund (LFMIX), LoCorr Long/Short Commodities Strategy Fund (LCSIX), and LoCorr Dynamic Opportunity Fund (LEQIX), rebalanced monthly. The 60/20/20 Portfolio represents a 60% allocation to the S&P 500 Index, a 20% allocation to the Bloomberg U.S. Aggregate Bond Index, and a 20% allocation to a Low-Correlating Sleeve which is equally weighted between LoCorr Macro Strategies Fund (LFMIX), LoCorr Long/Short Commodities Strategy Fund (LCSIX), and LoCorr Dynamic Opportunity Fund (LEQIX), rebalanced monthly. **Past performance is not a guarantee of future results.** *Returns are annualized for periods greater than one year. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 888.628.2887. Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.*

Don't Give Up on the Upside

In addition to mitigating risk in a portfolio, a sleeve of low-correlating strategies can also provide growth on the upside. As shown below, a sleeve of low-correlating strategies captured more than half of the upside of a traditional 60/40 portfolio, as of December 31, 2022.

Upside/Downside Capture Ratio - June 1, 2013 - December 31, 2022



Source: Morningstar. Calculated using monthly data. The 60/40 Portfolio represents a 60% allocation to the S&P 500 Index and a 40% allocation to the Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The Low-Correlating Sleeve is equally weighted between LoCorr Macro Strategies Fund (LFMIX), LoCorr Long/Short Commodities Strategy Fund (LCSIX), and LoCorr Dynamic Opportunity Fund (LEQIX), rebalanced monthly. **Past performance is not a guarantee of future results.**

A Different Decade for Investors

Today's market is unprecedented. The markets have reached uncharted waters after years of low interest rates, minimal market volatility, and an upward moving market. In a time when rising interest rates, inflation, and volatility are already making ripples, quantitative tightening will most certainly alter the next decade.

In 2023, geopolitical difficulties and "recession" remain in the headlines, so investors must further diversify their investments.

So, are you too late to reduce risk in your portfolio? We believe not.

However, low-correlating strategies only diversify portfolios when effectively allocated. Tactical allocations to alternatives are too common among investors. Like other effective asset allocation components, low-correlating strategies should be included as part of a strategic allocation—a permanent part of a well-diversified portfolio.

Today's portfolios require a ballast the standard 60/40 cannot provide in uncertain environments. Low-correlating techniques may offer the diversification investors need.

Time to invest.

Rather than trying to time the market, we believe low-correlating solutions deserve a permanent allocation in a portfolio.

LoCorr Funds is a leading provider of low-correlating investment strategies founded on the belief that non-traditional investment strategies with low correlation to stocks and bonds can reduce risk and help increase portfolio returns. LoCorr offers investment solutions that provide the potential for positive returns in rising or falling markets and help to achieve diversification in investment portfolios.

To learn more about how LoCorr can help you reach your investment goals, contact us at **888-628-2887** or visit us at **www.LoCorrFunds.com**.

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. Up Capture compares an investment's performance against its benchmark during periods when the benchmark's performance is positive, while Down Capture compares the investment's performance against the benchmark during periods when the benchmark's performance is negative. A value of greater than 100% indicates that the investment captured more return than the benchmark (this is a positive for Up Capture, however, a negative for Down Capture). Conversely, a value less than 100% means the investment captured less return than its benchmark (a positive for Down Capture, but a negative for Up Capture).

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 Long/Short 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.

Bloomberg U.S. Aggregate Bond Index is a broad-based bond index comprised of government, corporate, mortgage and asset-back issues rated investment grade or higher. **S&P 500 Index** is a capitalization weighted unmanaged benchmark index that includes the stocks of 500 large capitalization companies in major industries. This index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given period.

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