

2016 | Longboard Managed Futures Strategy Fund: Annual Update



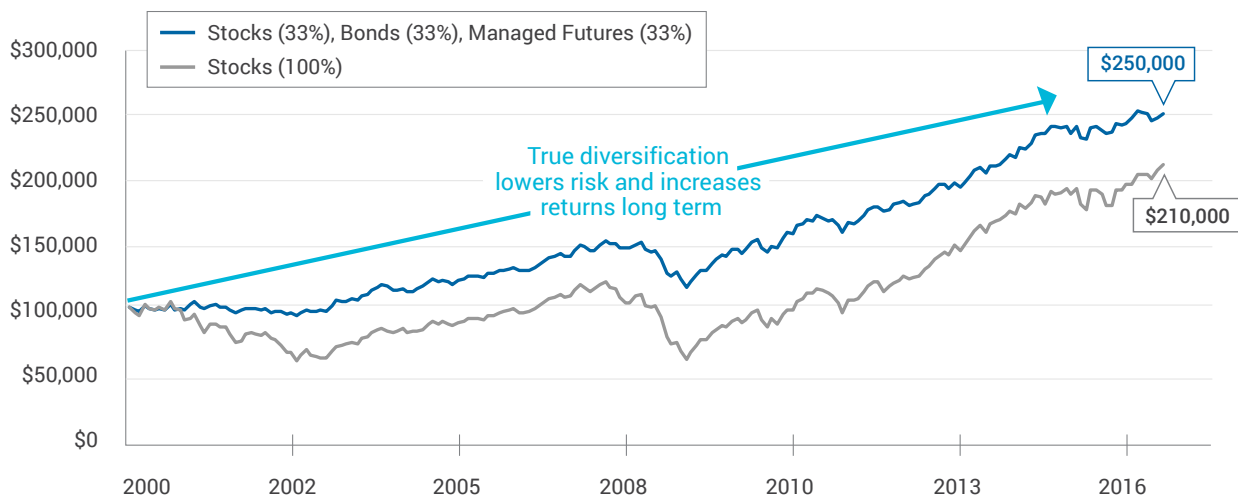
Much has been written about 2016's particular market movements in addition to forecasts for the new year.

Since the Longboard Managed Futures Strategy Fund's performance has been top of mind for investors, we will focus on this topic in place of the typical market outlook. (For those interested, we have separate pieces on [this year's trends](#) and [managed futures performance](#)).

Many investors are frustrated with the underperformance of their managed futures investments in 2016, especially with a rising stock market. We know firsthand that investors found themselves asking questions like: What should be done about this underperformance? As is often the case, history provides valuable insights.

Since the industry began tracking managed futures performance in 2000, the category has spent two out of every three years underperforming the stock market. Despite this short-term underperformance, managed futures has delivered great value in the form of true diversification – that is, uncorrelated performance that lowers risk and increases returns – to a traditional portfolio. The blue line shown below represents a balanced portfolio, containing an equal weighting of stocks, bonds and managed futures. The gray line represents pure stock exposure.

The value of true diversification



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Past performance is no guarantee of future results.

True Diversifier: True diversifiers are investment strategies that have historically provided investors with at least 70% of the return of traditional 60/40 stocks and bonds portfolios while having less than .30 bear correlation to traditional 60/40 stocks and bonds portfolios.

Stocks are represented by the S&P 500 TR Index, Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index, and Managed Futures are represented by the SG Trend Index. The Stocks, Bonds, and Managed Futures portfolio consists of an equal weighting of the S&P 500 TR Index, the Bloomberg Barclays US Aggregate Bond Index, and the SG Trend Index, respectively.

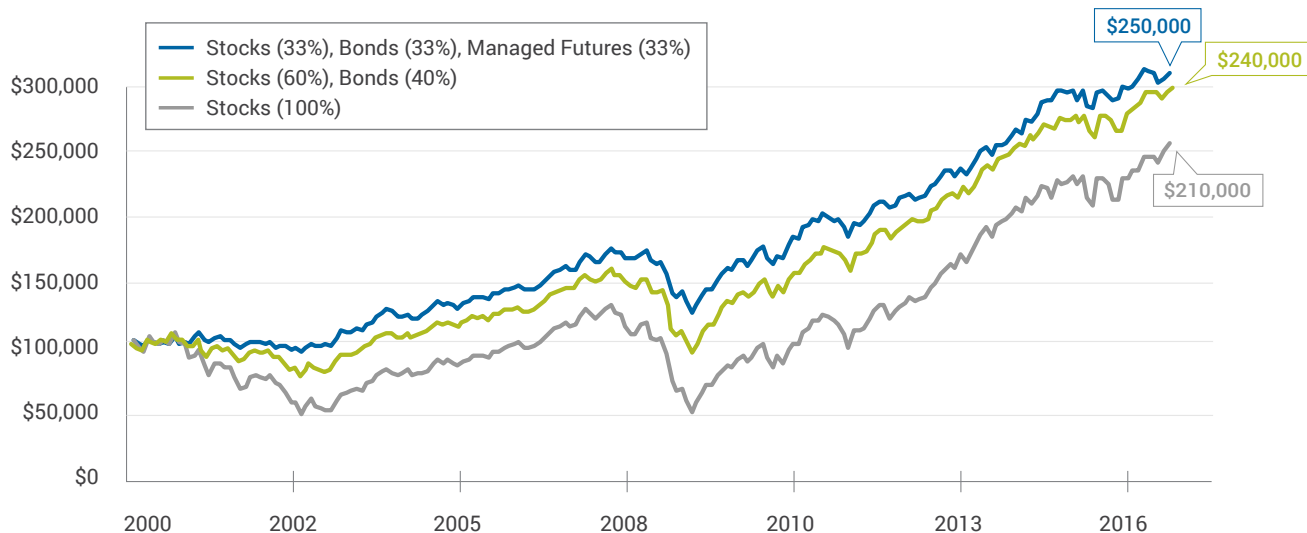
What true diversification really looks like

This is what true diversification looks like: investments that take on different risks and move differently from one another. If everything in your portfolio was up last year, then there's likely a decent chance that everything can also be negative in another year. True diversification is not about winning every battle of short-term performance— it's about thriving through the war of multiple market environments.

Of course, investors may choose to forego the benefits of true diversification to avoid the potential of short-term underperformance. They might do this by instead opting for pure stock exposure (the gray line) or a traditional 60/40 portfolio (the green line). The historical data shows how this trade-off would have worked out:

Less diversification = Less return, more risk

Jan. 2000 - Dec. 2016



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Wants versus needs

In hindsight, a balanced portfolio seems like all upside and no downside. Extra returns and lower risk—what's not to like? In real-time, however, the disciplined pursuit of a balanced portfolio comes with the emotional cost of enduring periods of short-term underperformance.

When presented with the historical data, many investors usually agree they need a balanced portfolio that meets their long-term financial goals. However, when they move forward into their day-to-day lives, investors often want to see everything in their portfolio appreciating at the same

time, especially when stock and bond benchmarks are strong. Still, at some point in a market cycle, a more balanced portfolio will underperform a less balanced portfolio for a period of time. When alternative investments, like managed futures, are the cause of this underperformance many investors will experience regret. Investors need to be made aware of what true diversification looks and feels like, and the resulting long-term benefits. In our experience, the cause for most failure in the investment world is rooted in relative performance envy. We've seen it firsthand in our fund:

Longboard hits the 3-year target Jan. 2000 - Dec. 2016

WAVIX Investor 3-Year Return*	-2.80%
WAVIX Fund 3-Year Return	5.00%
WAVIX Correlation to S&P 500	-0.05

*Investor return refers to the average return earned by investors in the fund, which deviates from actual fund performance based on investors' buy/sell decisions. For example, if the Fund NAV gains 5% and then loses 5%, the fund return is approximately zero. If investors buy the fund after the 5% gain and then sell after the 5% loss, the fund's investor return is approximately -10%, compared to a 0% return for the fund itself. **Past performance is no guarantee of future results.** Source: Morningstar

On a trailing 3-year period, the fund hit its target of high/mid-single digit returns with no correlation to the equities market. This is what most investors signed up for when investing in our fund, yet many failed to achieve these results due to suboptimal buy/sell decisions. Specifically, we noticed

large inflows early this year when the fund provided crisis alpha against double-digit declines in the stock market, and then significant selling after the roles reversed and stocks then outperformed.

How can this investment that persistently underperforms the rest of the portfolio add any value?

The answer lies in the fundamental nature of the trend following process.

The positive skew

Even when investors buy into the prospect of true diversification, they often wonder how it can work. How can this investment that persistently underperforms the rest of the portfolio add any value? The answer lies in the fundamental nature of the trend following process: cutting losing trades quickly and letting winners run indefinitely. This process creates a positively skewed return profile, with limited downside risk and uncapped upside potential. We saw a firsthand example of this positive skew during 2016's Brexit surprise.

In contrast, stocks experience slow and steady gains, punctuated by occasional large and rapid losses. During periods of rapid downside risk, traditional portfolios benefit most from strategies that gain aggressive exposure to prevailing trends—typically short risk assets and long perceived safe havens like the U.S. dollar and government bonds. The potential to deliver powerful upside volatility to buffer the downside volatility of traditional assets enables managed futures to create true diversification. Consider the following data set:

The value of combining uncorrelated returns

Jan. 2000 – Dec. 2016

	Return	Standard deviation	Max loss
Managed Futures	5.69	14.24	-17.66
Stocks	4.51	14.88	-50.95
50-50 Mix	5.74	9.53	-21.68

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Past performance is no guarantee of future results.

Stocks are represented by the S&P 500 TR Index and Managed Futures are represented by the SG Trend Index. The 50/50 mix portfolio consists of a 50% allocation to stocks (represented by the S&P 500 TR Index) and a 50% allocation to managed futures (represented by the SG Trend Index).

On their own, stocks and managed futures each contain relatively high volatility. Yet, the uncorrelated nature of their volatility creates a complementary balance that reduces overall portfolio risk while still producing better returns than either strategy on its own. It should be no surprise that in order to achieve this degree of uncorrelated performance, these two strategies will often travel different pathways over short time horizons.

Process versus outcome

Going forward, we believe investors will find success by focusing on the long-term process of true diversification, independent of the short-term outcomes along the way. When viewed in this light, we see that the fund successfully performed its role within traditional portfolios in 2016. We took on short exposure when downtrends emerged in risk assets, and provided upside volatility to buffer the downside moves in equities.

Ultimately some of these trends failed, like many do. This caused us to exit positions in failed trends to control risk. By following our disciplined process in 2016, we successfully limited downside risk during some of the sharpest and most broad-based trend reversals the market has experienced in years. The process worked exactly as planned, even though the short-term outcome meant taking modest losses. As trends changed, we realigned the portfolio and redeployed capital into the new opportunities that emerged.

Going into 2017, we remain confident in our ability to continue following trends, controlling risk and providing true diversification against traditional asset classes.

2016 | Portfolio Commentary

The fund returned -7.44% in 2016. While this year's return was negative, we believe the fund continues to deliver on its primary objectives:

1

Provide true diversification within a traditional portfolio

2

Maintain mid/high-single digit compounded annual returns over the long term

3

Be uncorrelated to traditional portfolios of stocks and bonds

4

Outperform our benchmark, the SG Trend Index, on a trailing three-year basis

WAVIX vs. benchmark 3-year returns

Jan. 2014 – Dec. 2016

WAVIX annualized return	Managed futures benchmark: SG Trend Index
5.00%	3.95%

(Managed Futures) SG Trend Index: A leading benchmark for tracking the performance of a pool of the largest managed futures trend following based hedge fund managers that are open to new investment. The SG Trend Index is equal-weighted and reconstituted annually. **Past performance is no guarantee of future results.**

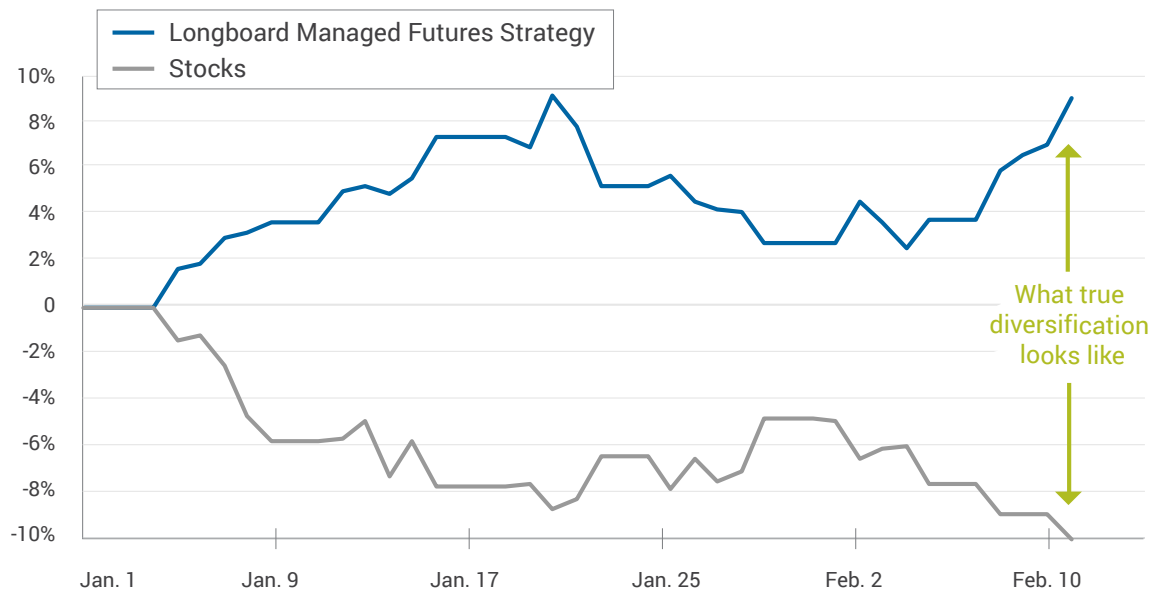
Early 2016: True diversifiers deliver upside volatility

The stock market succumbed to deflationary forces that swept the globe early in the year, with stocks incurring their worst start to the year on record. The fund delivered crisis alpha during this tumultuous environment by capturing

downtrends in risk assets and uptrends in perceived safe havens. By mid-February, the fund had generated a 9% return compared to double-digit declines for U.S. equities.

Non-correlation round one: WAVIX up, stocks down

Jan. 1, 2016 – Feb. 11, 2016



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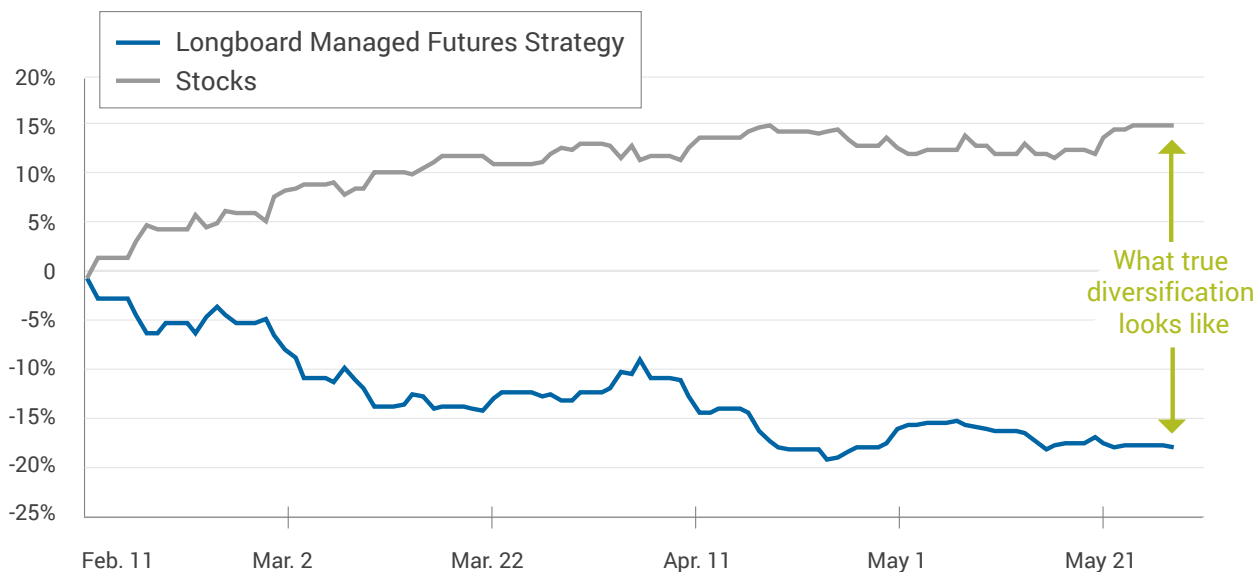
Stocks are represented by the S&P 500 TR Index.

Mid-2016: Managed futures deliver downside volatility

We all know what happened next. Market conditions and relative performance reversed, with U.S. stocks staging their largest quarterly reversal since the Great Depression. Other global risk assets, such as commodities and foreign stocks, followed suit and soared higher against their former

downtrends. These trend reversals caused losses for the fund's short positions among global risk assets. From peak to trough, the fund incurred a modest drawdown compared to a rebound in stock prices of similar magnitude.

Non-correlation round two: WAVIX down, stocks up Feb. 12, 2016 – May 31, 2016



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Stocks are represented by the S&P 500 TR Index.

Trend following anticipates the Brexit

Then, the Brexit shocked the world. Against predictions from many political experts, Britain voted to leave the EU. Financial markets were unprepared for this scenario, creating market dislocations across the board. The British pound saw its largest single-day decline in decades, accompanied by similar downside moves in global stock and commodity markets. Perceived safe haven assets soared in value.

number of pre-existing trends. These trends included downward moves in the British pound, and rising prices of gold, government bonds and the Japanese yen. Managed futures strategies posted one of their best days on record, and the fund returned more than 6% in a single day (on June 24, 2016).

Among the few strategies that benefited from the Brexit was the simple, rules-based trend following strategy. No fundamental analysis on the British electoral system was needed because the Brexit vote simply accelerated a

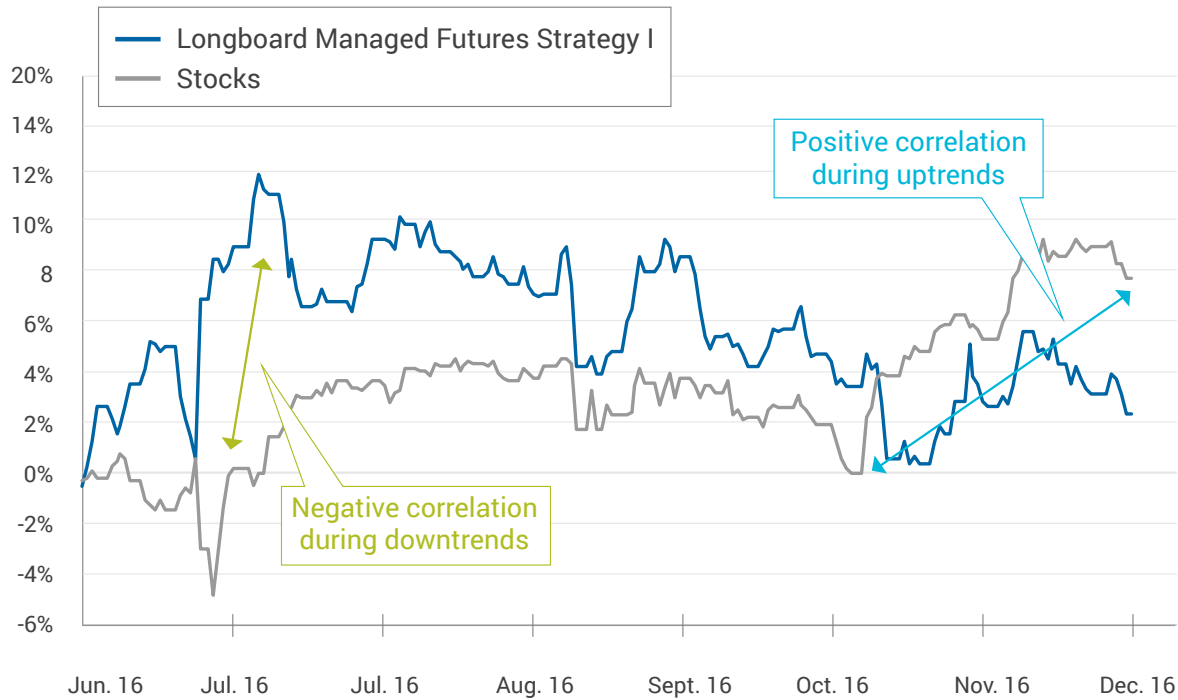
The diversification value of upside volatility

The fund showcased its diversification characteristics during this period of unexpected market turmoil. More important than the fund's positive returns was the magnitude of those returns. The fund's +6% upside (on June 24, 2016) —created by capturing currency and commodity trends—was large enough to more than offset the losses in the U.S. stock

market. Other asset classes like gold and government bonds also performed well, they didn't come close to matching the upside volatility of trend following strategies. This degree of upside volatility is the key feature of trend following that provides uniquely powerful diversification benefits within traditional portfolios.

Second half of 2016: Changing trends

Jun. 1, 2016 – Dec. 31, 2016



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Stocks are represented by the S&P 500 TR Index.

Shifting market trends in the second half of 2016

The Brexit panic ultimately subsided and trends reversed once again, causing another period of modest underperformance through the summer. As summer turned to fall, the broader market trends transitioned from deflation/stagnation toward inflation/growth. This shift began with an uptick in yields and inflation, and progressed with upside gains in commodities and cyclical stocks into the fourth quarter.

The fund generated flat performance following the U.S. elections, as profits from long positions in risk assets were offset by losses from long exposure to plunging fixed income markets. As market trends changed further, we continued to reorient the portfolio in line with the market's new trends throughout the fourth quarter. We exited short positions in

exhausted deflationary downtrends and repositioned the portfolio in accordance with new long-term trends toward growth and inflation.

Going into 2017, the current portfolio includes increased long exposure to commodities and currencies and a sharp reduction in sovereign bond positions. In fact, by the end of 2016, the fund had its lowest fixed income exposure since inception, which included modest short exposure to U.S. treasuries. We also have modest long exposure to a variety of global equity markets, but the bulk of the fund's risk now lies in the commodities and currencies asset class. Going forward, we believe the current portfolio will provide the opportunity for meaningful diversification against traditional stock and bond portfolios.

Fund performance

As of 12/31/16

CLASS	I (NAV)	A (NAV)	A (MaxLoad)**
TICKER	WAVIX	WAVEX	WAVEX
1 Month	-1.15%	-1.26%	-6.93%
3 Month	-5.66%	-5.81%	-11.22%
6 Month	-5.40%	-5.64%	-11.06%
1 Year 12/31/2016	-7.44%	-7.77%	-13.11%
2 Year 12/31/16	0.40%	0.10%	-2.83%
3 Year 12/31/16	5.00%	4.71%	2.66%
Since Inception 12/31/16	3.76%	3.36%	1.75%

*INCEPTION DATE: 6/27/12

**INCEPTION DATE: 3/22/13

The Total Annual Fund Operating Expenses for the Longboard Managed Futures Strategy Fund class A and I are 3.12% and 2.87% respectively. The maximum sales charge for Class A (Max Load) shares is 5.75%. The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. For performance information current to the most recent month-end, please call toll-free 855-294-7540 or visit our website, www.longboardmutualfunds.com. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses.

PROSPECTUS OFFERING DISCLOSURE

Investors should carefully consider the investment objectives, risks, charges and expenses of the Longboard Long/Short Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 855.294.7540. The prospectus should be read carefully before investing.

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DISCLOSURES

No level of diversification or non-correlation can ensure profits or guarantee against losses. There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments they could lose the full balance of their account. It is also, possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

Past performance is not an indication of future performance.

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Market analysis, returns, estimates and similar information, including statements of opinion/ belief contained herein are subject to a number of assumptions and inherent uncertainties. There can be no assurance that targets, projects or estimates of future performance will be realized.

Index performance in this document was sourced from third-party sources deemed to be accurate, but is not guaranteed. All index performance is gross of fees and would be lower if presented net of fees, except for the SG Trend Index, which is net of fees. Investors cannot invest directly in the indices referenced in this document.

DEFINITIONS

Bonds: Bloomberg Barclays U.S. Aggregate Bond Index:

An unmanaged index composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Stocks: S&P 500 TR Index: A stock market index based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's. In this presentation, the S&P 500 is presented as a total return index, which reflects the effects of dividend reinvestment.

Managed Futures: SG Trend Index: A leading benchmark for tracking the performance of a pool of the largest managed futures trend following based hedge fund managers that are open to new investment. The SG Trend Index is equal-weighted and reconstituted annually. The SG Trend Index was previously the Newedge Trend Index, prior to the name change on 1/1/2016.

True Diversifier: True diversifiers are investment strategies that have historically provided investors with at least 70% of the return of traditional 60/40 stocks and bonds portfolios while having less than .30 bear correlation to traditional 60/40 stocks and bonds portfolios.

Standard Deviation: This statistical measurement of dispersion about an average depicts how widely a mutual fund's returns varied over a certain period of time. Source: Morningstar Direct.

Safe Havens: Financial assets that have historically gained value during stock market declines, like the U.S. dollar and government bonds of developed economies, including the U.S., Japanese and certain European nations.

Diversification does not eliminate the risk of experiencing investment losses.

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