# MARKETFIELD FUND

March 31, 2018

MARKETFIELD ASSET MANAGEMENT

## Fund Overview

### OBJECTIVE

The investment objective of the Fund is capital appreciation.

### STRATEGY & PROCESS

The Fund seeks long-term growth of capital above that of the broad equity market over a full market cycle, with volatility that is generally lower than that of the broad equity market. Correlation between the Fund and the broad equity market may vary considerably over an investment cycle. The Fund has a broad investment charter that allows it to utilize equity securities, fixed income instruments, commodities, futures, and options. Additionally, the Fund may engage in short sales of securities using up to 50% of net assets to profit from an anticipated decline in the price of the security. The use of short selling could result in increased volatility of returns.

## Fund Facts

| | |
|---|---|
| CUSIP Class I | 89834E245 |
| CUSIP Class A | 89834E278 |
| CUSIP Class C | 89834E252 |
| CUSIP Class R6 | 89834E229 |
| Inception Date | 7/31/2007 |
| Benchmark | S&P 500 Index |
| Net Assets | $436.6 million |
| Number of Holdings | 73 |

## Portfolio Allocation

*(Excluding Cash) (As of 03/31/18)*

| | |
|---|---|
| Equity Long* | 97.2% |
| Equity Short* | -24.8% |
| Fixed Income Long | 0.8% |

**Option deltas not reflected.*

## Performance

Quarterly Average Annual Total Return As of 3/31/18

| | Tickers | 1 Mo | 3 Mo | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since Inception |
|---|---|---|---|---|---|---|---|---|---|
| Class I | MFLDX | -0.51% | 1.32% | 1.32% | 16.94% | 2.92% | 1.19% | 5.30% | 5.55% |
| Class A (Max. 5.5% load) | MFADX | -5.98% | -4.28% | -4.28% | 10.23% | 0.76% | -0.19% | 4.45% | 4.74% |
| Class A (NAV) | MFADX | -0.51% | 1.28% | 1.28% | 16.64% | 2.68% | 0.95% | 5.05% | 5.30% |
| Class C (Max. 1.0% CDSC) | MFCDX | -1.53% | 0.09% | 0.09% | 14.77% | 1.90% | 0.18% | 4.26% | 4.51% |
| Class R6 | MFRIX | -0.45% | 1.37% | 1.37% | 17.12% | 3.09% | 1.32% | 5.37% | 5.62% |
| S&P 500® Index | SPXT | -2.54% | -0.76% | -0.76% | 13.99% | 10.78% | 13.31% | 9.49% | 8.05% |

Class I Inception Date is 7/31/07. Class A Inception Date is 10/5/12, Class C Inception Date is 10/5/12 and Class R6 Inception Date is 6/17/13. S&P 500® Index since inception returns are as of Class I inception date of 7/31/07.

**Performance data quoted represents past performance. Past performance is no guarantee of future results. Due to market volatility, current performance may be less or higher than the figures shown. Investment return and principal value will fluctuate, so that upon redemption, shares may be worth more or less than their original cost. For performance information current to the most recent month-end, visit our web site at http://www.marketfield.com/fund/.**

Total Annual Fund Operating Expenses are: Class I: 2.66%, Class A: 2.91%, Class C: 3.67%, and Class R6: 2.64%. Expenses include Dividend Expense on Securities Sold Short and Broker Fees and Charges on Short Sales.

Performance data for the classes varies based on differences in their fee and expense structures. The performance figures for Class I shares reflect the historical performance of the then-existing shares of MainStay Marketfield Fund (the predecessor to the Fund, for which the Adviser served as the investment sub-advisor) for periods from October 5, 2012 to April 8, 2016. The performance figures for Class I shares also reflect the historical performance of the then-existing shares of the predecessor fund to MainStay Marketfield Fund (which was subject to a different fee structure, and for which a predecessor entity to the Adviser served as the investment adviser)for periods prior to October 5, 2012. The returns in the table below for periods prior to October 5, 2012 have been calculated using the expenses of the predecessor fund to the MainStay Marketfield Fund. Performance figures for Class A and Class C shares, first offered on October 5, 2012, include the historical performance of Class I shares through October 4, 2012 and are adjusted to reflect differences in fees and expenses. Performance figures for Class R6 shares, first offered on June 17, 2013, include the historical performance of Class I shares through June 16, 2013. Performance data for the classes varies based on differences in their fee and expense structures. The returns in the table above for periods prior to October 5, 2012 have been calculated using the expenses of the predecessor fund to the MainStay Marketfield Fund. Performance data for the classes varies based on differences in their fee and expense structures. Unadjusted, the performance for the newer classes would likely have been different because of differences in certain fees and expenses attributable to each share class.

## Regions Exposure *(As of 03/31/18)*

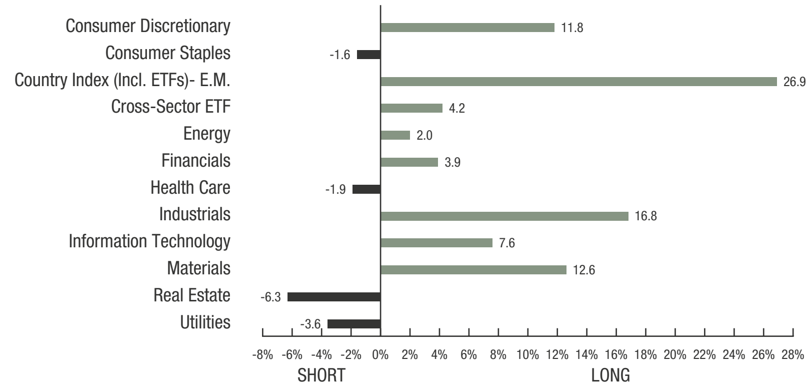
| | Long | Short | Net |
|---|---|---|---|
| U.S. | 47.4 | -24.8 | 22.60% |
| Emerging Markets | 29.4 | 0.00 | 29.40% |
| Europe | 9.2 | 0.00 | 9.20% |
| Japan | 5.4 | 0.00 | 5.40% |
| China | 3.6 | 0.00 | 3.60% |
| Australia | 1.6 | 0.00 | 1.60% |
| Canada | 0.6 | 0.00 | 0.60% |

## Portfolio Management

**Michael C. Aronstein**
President, Chief Investment Officer
Portfolio Manager
Marketfield Asset Management LLC

**Michael Shaoul**
Chairman, CEO
Portfolio Manager
Marketfield Asset Management LLC

## Sectors Net Exposure




## Before You Invest

**Before considering an investment in the Fund, you should understand that you could lose money.**

*The Fund regularly makes short sales of securities, which involves the risk that losses may exceed the original amount invested. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates, and currency exchange rates. However, a mutual fund investor's risk is limited to the amount invested in a fund. Investments in absolute return strategies are not intended to outperform stocks and bonds during strong market rallies.*

*Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for emerging markets. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Investing in mid-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund involves the risk that the macroeconomic trends identified by portfolio management will not come to fruition and their advantageous duration may not last as long as portfolio management forecasts. The Fund may invest in derivatives, which may increase the volatility of the Fund's NAV and may result in a loss to the Fund.*

Notional value is the total value of a leveraged position's assets. Correlation is a statistical measure of the degree to which the movements of two variables (stock/option/convertible prices or returns) are related. Option Delta is the relationship between the option price and the underlying price, which reflects the sensitivity of the price of the option to changes in the price of the underlying security.

The S&P 500® Index is a trademark of McGraw Hill Financial Inc. The S&P 500® Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the S&P 500 Index. An investment cannot be made directly into an index.

Regions and Sectors Exposures are subject to change and are not recommendations to buy or sell any security. Only equities and equity instruments classified in Regions and Sectors Exposures. Options premiums, and not delta exposure, are used in Sectors and Regions Exposures, when applicable. Options premiums, and not delta exposure, are used in Sectors and Regions Exposures, when applicable. The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor Financial Services LLC ("S&P"). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

**Diversification does not assure a profit nor protect against loss in a declining market.**

**For more information about Marketfield Fund, call 800-311-6583 for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.**

The Marketfield Fund is managed by Marketfield Asset Management LLC and distributed by Quasar Distributors, LLC.

## Contact Us

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MARKETFIELD
ASSET MANAGEMENT

# MARKETFIELD FUND

**March 2018**

## Commentary

Chairman's Report   March 2018

The Fund generated a return of 1.32% during the quarter, compared to the SPX index's total return of -0.76%. This is the 7th consecutive positive quarter for the Fund's returns, the longest run since the 9 positive quarters recorded between Q4 2011 and Q4 2013. The last quarter was split between the powerful rally that took place in the first 4 weeks of the year and the messy correction that followed. Our positive overall performance is a reflection of the fact that the Fund captured almost all of the upside move in markets at the start of the year and only a portion of the decline that followed, particularly during the second leg that took place in March.

Parsing attribution during a period of whipsawing markets is hard to do with any accuracy but we are satisfied with the overall performance of the portfolio during the first period of meaningful volatility in a number of quarters. We are particularly pleased that both the long and short side of the book generated a positive return, with the former still tilted heavily towards economically sensitive sectors and the latter towards more defensive sectors.

On the long side, Emerging markets were a notable contributor to gains, and we have continued to add to commodity sensitive markets adding exposure to Chile, Russia and Argentina during the quarter. Although exposure to Europe overall was helped by currency movement, it is fair to say that the performance of the underlying equities were disappointing and we did trim some exposure during the quarter. In the U.S., Housing related exposure was perhaps the worst performing portion of the portfolio, accelerating strongly in January and wiping out these gains by the middle of February. Recent data points suggest that this has still been a strong period for single family home sales and we have maintained exposure in this area. Industrial exposure also generated some losses in recent weeks, as trade concerns unnerved investors again we have maintained exposure at prior levels.

On the short side of the portfolio our allocations to U.S. REITs and consumer staples were both quite profitable. We believe that REITs are facing significant headwinds from oversupply, particularly in the NYC office and multi-family rental markets. In the case of staples our concerns are driven by the risk that rising input costs cause margins to compress. Our short position in Utilities is used as a hedge against higher interest rates and performed well when interest rates were rising and then reversed in March when interest rates declined, but was still modestly profitable over the course of the quarter.

Overall we view the current correction as marking a transition from a broad bull market with low volatility, which typified the period between Brexit and the end of 2017, into a narrower more complex investment environment. As has already proved to be the case in 2018, where and how you are invested is likely to matter much more than it has in recent quarters. This is a transition that we have long expected to occur and we believe that it is one which will favor allocations to many of the areas that the Fund is exposed to. We also have the benefit of a flexible mandate, which seems likely to be quite important going forwards.

April 10, 2018

Michael Shaoul

Chairman, CEO & Portfolio Manager

## Commentary (continued)

**Chief Investment Officer's Report**

### The Inflation Chronicles Chapter III

Inflation in its localized forms can be thought of as one of the principal objectives of investing. Equity investors are always looking to own businesses enjoying real strength in the prices of their products and the expansion of margins that occurs in tandem.

Disparities in pricing power are double-edged. When grains are cheap, far better to be a baker than a farmer. If cakes and breads are also selling at inflated prices, the gap between outcomes is further magnified.

Relative pricing power can arise as a result of demand shocks, scarcity, patent or trademark protection and other impediments to competition. In most instances, the windfalls accruing to beneficiaries of specific inflationary episodes are temporary. Market forces eventually respond.

In cycles of rising prices, some level is reached where the incentives for greater production and restrained demand bring markets back toward equilibrium. These inflections are generally unforeseen and quite destructive to those who came to regard inflation in specific sectors as permanent.

We use the term inflation to describe real price increases in particular goods and services despite our long held belief that the basis of all general inflations in both asset prices and the costs of real goods and services is monetary. Expansions of money and credit at rates in excess of demand prompted by real economic activity will spill over into abnormal demand for investment media and capital assets in sectors where local supply and demand dynamics provide support for rising prices.

Our quarrel with monetary policies that we regard as inflationary stems from the uneven effects produced throughout the economy. The inflationary fortunes of some sectors are always contrasted by those where supply and demand are such that prices are depressed even in the face of general ebullience. The gulf between winners and losers is exaggerated. Disparities in wealth and income are profound.

Consider the recent price cycle for property in urban centers that appeal to financial firms, technology companies, venture capital investors and the start-ups that they compete to finance. Values in Greater San Francisco, Seattle, Austin, London, Boston and New York have increased at rates that far exceed the gains in more prosaic locations. Owners and early investors in these and other "cool" locales are living like Maharajas. Financing has been cheap and nearly limitless.

The technology and e-commerce businesses that inhabit the most vibrant neighborhoods of the prosperous cities have the general characteristic of abundant output. They are able to increase the reach of their product to nearly any given extent with little incremental cost or effort. This scalability has been the basis for the wide investment appeal of companies providing software, communications, social media platforms, online entertainment and internet based retailing.

Millions of additional users of any of the foregoing businesses can be accommodated with just a few more servers or additional space in the cloud. The threat of supply shortages is near zero. In fact, the emergence of supply gluts, falling prices and vanishing profitability is a much greater risk. A search for 'custom cat collars' returns nearly three million results. We would be surprised if all were profitable.

With the possible exception of biotechnology, almost all of the areas on which venture investors have focused present few barriers to entry or competition. Their strategy for start-ups normally involves spending enough money early on to establish a dominant presence in the particular niche that is being targeted. The idea of compounding unit growth with price hikes is rarely planned, as elevated prices and margins simply embolden potential competitors.

Intellectual and ephemeral properties have always held special appeal for investors. The operating leverage inherent in the lack of meaningful costs to run incremental numbers of books or newspapers off a printing press, provide more access to radio signals over the air or software packages over the internet is enormous. Once the initial infrastructure has been completed, certain businesses enjoy a cost of incremental goods sold (COIGS) approaching zero.

Endeavors of this type can also be viewed as "unconstrained producers", with the ability to meet almost any given level of demand by promptly increasing production. The common pattern of rising prices in response to rising demand is unnecessary to balance the markets for these abundant products.

## Commentary (continued)

The elasticity of supply in the unconstrained sectors stands in contrast to much of the "old" economy, where more tangible input dependencies make it difficult to quickly increase output when market imbalances arise. The normal outcome when demand outstrips supply in these constrained portions of the economy is rising prices, which, in the orthodox view, constitute inflation.

From our perspective, the prevailing concept of inflation among central bankers and their academic progenitors is mistaken on several counts. The most basic conceptual error is to mistake inflation for its derivatives rather than its primary basis, which is always monetary. The symptoms of disease are not the disease.

Excessively generous monetary and credit conditions will invariably provoke economic and financial distortions. Period.

Monetary policymakers have chosen to concern themselves with one, narrow slice of the range of consequences arising from overly generous policy. For practical purposes, we will look through their lens and address matters within the framework that equates inflation with price changes in certain goods and services.

The invalidity of using price changes as indicia of monetary propriety is practical as well as theoretical. As the economy moves toward more unconstrained, technologically driven production, the likelihood of shortages and price increases in responses to artificially enhanced demand diminishes.

Suppose for a moment that technological progress reaches a point at which a limited number of robotically staffed factories can produce almost any finished product on demand, with physical inputs provided by similarly autonomous raw material operations. A world in which supplies of most goods could be increased as easily as adding customers for a cellphone application would be a world in which prices of consumer goods would be hard pressed to rise. In this world of abundant supply, the consumer price index (CPI) would never rise in response to easy monetary policy.

On the contrary, end product price deflation would be the norm, much as it is today in the advanced, technologically based sectors.

Would this tendency toward deflating price indices mean that in our imagined, hyper-productive economy, any degree of monetary expansion was justified?

Rapid, inexpensive supply elasticities have not yet pervaded the entire system, but the portion of the economy in which rapid unit growth and declining real prices go hand in hand has attained critical mass. The large and growing influence of the inflation-resistant sectors on traditional measures of prices has further undermined what little indicative value these indices had to begin with. Sectors prone to inflationary pressures are offset by the natural inertia of prices in the technologically adept portions of the new economy.

This systematic suppression of broad price measures leads central bankers to underestimate the overall risks of hyper-stimulative policies intended to move broad measures of inflation higher.

Although we are a fair way along the path to abundant and inexpensive supply in important, rapidly growing sectors, the economy as a whole remains dependent on critical inputs where shortages and sharply rising prices are natural consequences when supply cannot keep pace with increases in demand. When unusual demand growth is abetted by monetary conditions, the disruptions and distortions in markets beset by scarcity and inflation can be laid at the feet of the Federal Reserve Board.

The question now is whether such distorted markets are at hand and, if so, what are the ensuing risks to the overall economy.

A microcosmic model of the divisions and distortions arising in the broader economy can be seen in any of the large cities where technology companies and venture start-ups are concentrated. The wealth and activity centered around businesses in the new economy have strained urban infrastructures to the breaking point. Housing is scarce and unaffordable for anyone on a normal income. Luxury dwellings and high-end retail have come to dominate private development. Public transportation is overwhelmed, and governments cannot afford the costs of maintenance and repair.

Limitless access to capital from venture, private-equity and institutional real estate funds has driven a damaging form of inflation that is unacknowledged in official metrics.

The inflationary strains apparent in urban technology centers are becoming more pronounced in the economy as a whole. The lure of employment in technologically oriented businesses and the service infrastructures that support them has meant labor scarcity and higher costs for more prosaic, but crucial portions of the economy at large.

Limited availability of workers to meet demand growth in services, manufacturing, transportation and extractive industries is beginning to become manifest in scarcity and rising prices. Irrespective of the limitless capabilities for rapid expansion evident within the leading growth sectors, overall economic activity is beholden to support from a plethora of mundane, physically

## Commentary (continued)

constrained inputs that have been stressed to their breaking points. The planned suspension of a single New York subway line linking Brooklyn with Manhattan threatens to undermine a large population and countless business and lifestyle plans.

In some sense, a structural antagonism between highly productive, creative, technologically enhanced businesses and seemingly pedestrian aspects of the old economy within which they operate and live has intensified to a breaking point.

On the one hand, enterprises based entirely on branding, intellectual and conceptual capital are proliferating and absorbing a greater share of investment flows and resources from the remainder of the economy, where supply shortages and price pressures are beginning to build.

Thousands of craft brewers lately established to serve modern millennials are seeing the prices of cans, kegs and specialty ingredients rise at ten or twenty times the stated rate of inflation. Their profitability is dwindling in the face of nearly limitless competition and rising costs. The India Pale Ale (IPA) glut is trivial in comparison to the proliferation of websites, smartphone apps and entertainment options that are now entangled in the first stages of structural oversupply and competitive pressures that threaten to drive prices down too rapidly for productivity gains to offset.

Labor, raw materials and transportation markets in the old economy are at or near capacity. In contrast, a surplus of high margin, upscale goods, services and dwellings is beginning to compress pricing and profitability in sectors that have led the economy, the popular imagination, and the equity markets for most of the past decade. The bifurcation between these parts of the economy is likely to persist, although the roster of winners and losers looks ready to invert.

A process of reversion toward some balance appears to be underway. A peak in the new economy might have been signaled by Amazon’s quest to locate an appropriate site for an auxiliary headquarters and the ensuing frenzy among politicians to prostrate themselves before the new colossus. We have always looked at the construction of grand, new headquarters buildings (along with stadium naming rights, new jet fleets and rising divorce rates) as danger signals in public companies. This is, however, our first experience with a second, distinct headquarters for a single company. Time will tell.

With two different and asynchronous economies cohabiting within one nation, the Federal Reserve faces an impossible challenge. The inflationary and recessionary risks within each are vastly different and only loosely conjoined. The aggregate results shown in indices that commingle the different elements are vastly misleading, and invariable prompt policy responses that might be appropriate for one sector but disastrous for many others. This has been the history of Federal Reserve policy for more than a century, and we see no reason for this cycle to be different.

Similar outcomes from hyper-stimulative monetary policies are likely to arise to varying degrees and at different speeds in other parts of the world where ease beyond imagining has been the order of business. Consequences and benefits may well accrue in a manner diametrically opposed to the current expectations of most investors. Beneficial inflation in important parts of the old economy that adds to deflationary pressures results in favored, modern and highly capitalized parts of the economy may be a first step in restoring validity to the idea of active asset allocation.

April 20, 2018

Michael C. Aronstein

President, CIO & Portfolio Manager