REGAL
Total Return

Market Summary

Stocks continued to climb during the third quarter as escalating tensions with North Korea, a series of devastating storms, and the Fed's announcement that it would begin to normalize its balance sheet didn't dent the market as instead, investors chose to focus on the prospects of lower corporate tax rates. The broad-based S&P 500 Index rose 4.48% in the quarter and has risen over 14% year to date.

Our fund posted another positive quarter. Again, our diversification served to dampen some of the upside, but we believe that this is a price we are willing to pay to attempt to mitigate potential volatility.

Thoughts on Chasing Returns

Since 2009, US equities have outperformed just about every major asset class by a considerable margin. The S&P 500, a good gauge of broad stock market exposure, has returned 14.5% a year on average. And, over the same period, a simple 70% S&P 500 Index/30% Bloomberg Barclays Aggregate Bond Index portfolio returned 11.4% per year, on average.

These kinds of results can tempt even the savviest investors into abandoning their long-term discipline and chasing returns. Indeed, many investors have recently raised the notion of whether to just invest 100% in US equities, or in a simple, indexed 70/30 portfolio.

Similar to today, many investors asked the same questions about the diversified approach in the late 1990s. From 1995 through 1999, there was also a sustained bull market, and a simple portfolio outperformed a diversified one for an extended period of time. But there was a key difference between US equities' outperformance then compared with today, this difference was investor involvement. According to a MarketWatch study, in 1999, 45% of individuals reported at least some stock market investments. Today that number is just 20%, which could make the feeling of missing out seem even greater.

But with history as a guide, diversified portfolios still prevail over the long term. A research report from Cambridge Associates suggests that, on average, investors with more than 15% in managed investments were consistently top-quartile performers over a period of 20 years or greater. In fact, if those investors with highly diversified, active portfolios had abandoned that approach during the bull market of the 1990s, they would have earned lower long-term returns and have smaller portfolios today as a result.

Even with two historic bull markets and indexed portfolios outperforming diversified portfolios in 12 of the last 20 years, *these long-term investors have more money today because they stayed with the long-term, highly diversified, active portfolio approach.*

Over the 20 years ending June 30, 2016, a simple 70% S&P 500/30% Bloomberg Barclays Bond portfolio returned 7.6% annually. A 40% S&P 500/20% MSCI EAFE/10% MSCI Emerging Markets/30% Bloomberg Barclays Aggregate Bond portfolio fared worse, returning 6.0% annually during the timeframe. Assuming a typical spending rate of 5% and accounting for inflation at 2.1%, many investors would have been in danger of not meeting their long-term objectives with an indexed portfolio.

Contrast that with a mean return of 8.6% annually, net of investment management fees, for the investors with at least 15% of their portfolios actively managed. The active portfolio bested US and globally invested index portfolios by 100 basis points and 260 basis points, respectively, over the full-time period.

That outperformance provided investors who allocated at least a portion to active investments with more money to spend—and larger assets even after spending. Assuming an annual spending rate of 5%, a $100,000 portfolio that experienced the highly diversified active investors' mean annualized return over the 20-year time period would have spent a total of $143,000 over the time period; indexed US and global portfolios would have only spent $133,000 and $103,000 respectively. Even after accounting for spending, the highly diversified active portfolio would have a market value of $187,000 today while the simple, indexed US and global portfolios would be worth just $155,000 and $115,000 respectively.

There are of course realities and considerations that the best investors must, and do take into account. First, while the sustained outperformance of US equities since 2009 is rare, it is not unheard of. Investors should assume that a simple portfolio will likely outperform a diversified, active one at various points in the short term, despite these active portfolios having higher expected long-term returns. And they must be prepared to persevere when their portfolio returns are lagging in the short run.

The other very important consideration, is the degree to active managers might deliver on the expectations investors have for them. Clearly investors who are able to identify these long-term outperforming managers have the potential to reap the rewards. And after the returns we have experienced over the past 8 years, I think longer-term return expectations need to be adjusted accordingly.

But even as return expectations have come down, performance in these active strategies remains highly dispersed, reflecting differences in both strategy and in manager skill. That dispersion reminds us that not all active managers are the same. Overall, there remain a meaningful number of quality active managers that have an ability to add significant value to portfolios over the long term.

The hypothetical examples are meant to demonstrate a basic compounding principal. It does not represent or predict the performance of any investment and does not take into account taxes, fees or charges associated with an investment.

As the last 20 years have shown, alpha is available in every part of the market cycle, and investors who can find it significantly benefit from active management, even during beta-driven markets. And importantly, the likely reality is that the next decade's best performers will not be those that have loaded up on index equity and bonds. The appeal of indexed portfolios is based on recent performance that is unlikely to be repeated over the next decade. While timing is anyone's guess, valuations for global stocks and bonds are currently so elevated, long-term investors would be hard pressed to find ways for an inexpensive, indexed portfolio to meet their long-term return objectives over time.

When the market inevitably corrects itself, the investors most likely to meet their return objectives are those who continue to embrace diversification and can generate alpha. The savviest investors know that the best way to do that is to avoid making short-term decisions that take them away from opportunities at precisely the wrong time.

Please note: The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment. Please consult your advisor. The views in this material were those of the author as of the date of publication and may not reflect their view on the date this material is first published or any time thereafter.

DEFINITIONS:

Alpha: is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Beta: is a measure of the volatility, or systematic risk, of a security of a portfolio in comparison to the market as a whole.

RISKS:

There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

Emerging Markets securities tend to be more volatile and less liquid than securities in developed countries. Foreign Securities involve risks related to adverse political and economic developments unique to a country or region, currency fluctuations or controls. The Fund invests in exchange traded funds (ETFs) which are securities of other investment companies. An ETF seeks to track the performance of an index by holding all, or a sampling, of the securities of that index, and may not be able to exactly replicate the performance it seeks to track. Shareholders of the Fund bear their proportionate share of the other investment company fees and expenses as well as their share of the Fund fees and expenses. **Small-cap and Mid-cap** company stocks are considered riskier than large-cap stocks due to greater potential volatility and less liquidity.

An investor should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, please contact your financial advisor or please call 844.66.REGAL(73425). Please read the prospectus carefully before investing.

IMST Distributors, LLC, Distributor of the Regal Total Return Fund